Economic Progress and Adjustment

A Review of 1957

THE RISE in business activity which extended for three years carried the economy to a peak in the third quarter of 1957 and brought new records for the year as a whole in output, consumption, and employment. The decline in business in the final quarter canceled part of the earlier 1956–57 gain, but the year closed with the economy operating at a near-record level. Consumption and fixed investment held close to the third quarter peak; production dropped moderately as sales were made from inventories while forward purchasing was curtailed.

The slackened expansion in 1957 as a top was reached, and the most recent shift in trend are evident from the chart below. This records on the left a rise of 1 percent in the volume of production in 1957, and of one-tenth in the period since 1954, and on the right the accompanying rise in personal income and employment. The 1957 advance in current-dollar gross national product did not differ greatly from that of 1956, as both demand and cost pressures pushed up the general price level.

Wholesale prices averaged about 3 percent above 1956, and consumer prices registered a slightly larger relative increase. While industrial raw materials prices trended downward in 1957—largely in response to easing of supply-demand relationships—agricultural and manufactured finished product prices were higher. At the consumer level, the price advance was general, led by higher prices for food and service items.

While output and prices were higher in 1957, the supply of money was moderately reduced and there was a further increase in the rate of cash turnover. In the face of restricted supplies of new funds, business reduced liquidity, as it had done also in 1956. Interest rates last year moved steadily upward until the closing months, when the decline in activity coupled with easing actions on the part of the monetary authorities, led to lower borrowing costs and somewhat freer credit conditions.

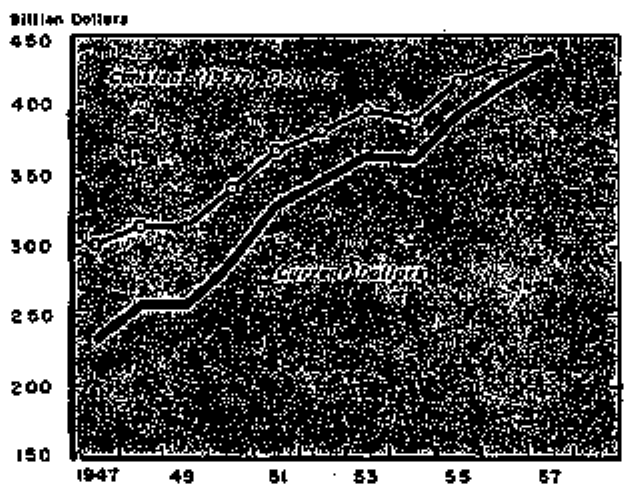
The year's record: National output higher

Gross national product at $434 billion in 1957 was 5 percent higher than in 1956. The flow of personal income was correspondingly larger in dollar terms, and this gain represented some advance also in the real purchasing power of individuals.

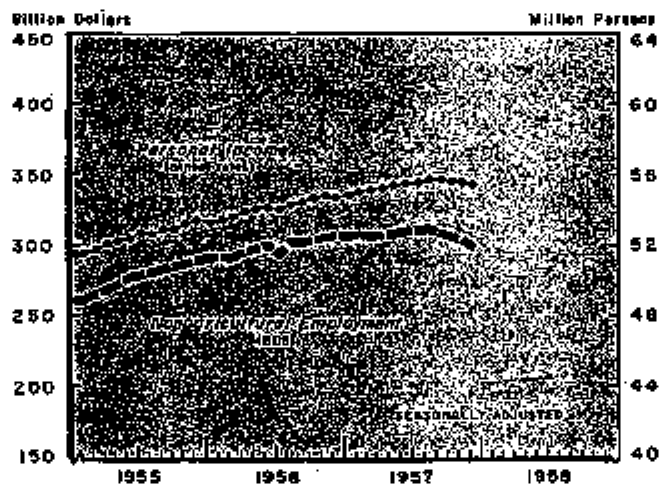
The rise in income was largely concentrated in wage and salary disbursements, which rose both absolutely and in relation to the total income flow. The share of corporate profits in national income declined as the volume of earnings in 1957 was off somewhat from 1956. In light of the rise in corporate sales, profit margins narrowed further.

The enlarged stream of income was channeled primarily into consumer markets. Total consumer expenditures were

NATIONAL OUTPUT In 1957 Was Up 1% in Volume and 5% in Value



TREND OF BUSINESS Upward Through Third Quarter – Off in Final Quarter



at a new high of $280 billion in 1957, 5 percent above 1956 in dollars and up almost 2 percent in real terms. Dollar outlays for automobiles, food, and services were all appreciably higher than in 1956, and other consumer spending was generally well sustained.

Private investment demand in 1957 was virtually maintained at the record $67 billion for 1956. A further increase in business fixed investment, combined with larger foreign demands on domestic resources, approximately offset a reduction in residential building and the virtual cessation of inventory accumulation by business.

Purchases of Government—Federal, State, and local—increased from $80 billion in 1956 to $86½ billion in 1957. While there was little net expansion by the Federal Government within the year, spending had been on a rising scale during 1956 and the total for 1957 was higher than in the previous year. State and local government outlays were kept on the upward-sloping trend which has characterized these demands over the postwar period.

The record output achieved in 1957 brought civilian employment to a new high average of 65 million in 1957, roughly one-half million more than in 1956. Though farm employment continued its long-term decline, there was a more than offsetting gain in nonfarm jobs. Unemployment, while rising in the latter half of the year, averaged about the same as in 1955 and 1956—around 4 percent of the civilian labor force. The workweek was further shortened in 1957. Taking into account the increase in employment and the reduction in hours worked, it would appear that the total of man-hours worked in 1957 was little changed from 1956.

Adjustment of demands in 1957

Major influences which underlay the 1955–56 expansion of economic activity acted with diminished force during the progress of 1957. Among the realignment of demands was the change involved in inventories—a typically volatile factor in cyclical movements of business. During 1955 and 1956, demands for the Nation's output included new inventory requirements of $4½ billion annually to meet the enlarged output and the shifts in the composition of the final product.

In 1957, such requirements were small, and one of the features of the year was the manner in which business moved to balance inventories with sales. Movement of goods into inventory was sharply curtailed in the first three quarters of the year and in general—with some exceptions—inventories were not permitted to get out of line with sales. However, with the change in the general pace of business in the final months of the year—stemming from current and prospective shifts in the demands for final products and industry's increasing capacity to produce—current demands were met in part from accumulated supplies, with a consequent effect on current production. Commitments were shortened, and greater efficiency of output and distribution was sought.

In early 1957, some basic commodities, such as steel, were still in heavy demand and forward commitments to buy were well sustained. However, capacity to produce these goods was being sharply raised while expansion of aggregate demands was slowing. Delivery schedules were considerably shortened and customers were able to provide for their own markets without additions to the stocks on hand.

Also, weaknesses were showing up in the prices of certain raw materials, such as steel scrap and nonferrous metals. These occasioned precautionary cutbacks in ordering by users of these materials.

Finally, the expansion of industrial capacity was proving to be less urgent in view of general market developments. In contrast to 1956, when pipelines were being enlarged to meet the needs of capacity expansion no further additions to inventories were required on this account in 1957.

Record plant expansion

Rising expenditures for plant and equipment had provided a major stimulus to economic activity in 1956. Most of the expansion in outlays had been achieved by late 1956, when the annual rate of investment amounted to $36½ billion. During 1957, the high rate of installation was maintained, with higher prices largely responsible for the rise in dollar outlays. Indications at year-end pointed to a lower level of fixed business investment in the period immediately ahead, as realization of some of the expansion goals and the overall dip in business activity brought a widening gap between capacity and the demands being placed upon it.

Foreign demand parallels general pattern

Foreign markets were a major factor in the expansion of domestic business in 1957 as a whole compared with 1956. After allowance for price changes, the increased volume of exports (excluding military supplies and services transferred as grant aid) amounted to about $2 billion, or 8 percent.

The high point in exports was reached during the first part of the year. While still continuing in large volume, exports declined moderately in the middle months. The rate of decrease accelerated toward the end of the year, thus contributing to the downturn in business.

Changed Government requirements

Actual and prospective changes in the demands of Government were also of special import in shaping the pace of general economic activity in 1957. Purchases by the Federal Government picked up in the latter part of 1956 and continued on an uptrend through last spring. Thereafter, budgetary pressures were in the direction of lowered outlays and new contracts placed last summer and early fall by the Government fell off sharply. Federal outlays underwent a slight reduction in the third and fourth quarters; and, combined with the cutbacks then in prospect, they had a dampening effect on business.

New international developments, particularly in the missiles field, brought a reappraisal of security requirements in late 1957 which changed this picture. The new budgets for fiscal 1958 and 1959 pointed to higher Federal spending in the period ahead. The change in program was reflected in a rise in Government orders in the final quarter of 1957—a rise scheduled to continue over the near-term.

A moderate increase over the fourth quarter 1957 rate of Federal Government expenditures on goods and services is now projected for the middle of 1958. According to present budget plans, purchases for the 1959 fiscal year are projected to run about $2 billion higher than the total for the current fiscal year. The 1959 budget also calls for a further increase of $1 billion for grants-in-aid to State and local governments in connection with accelerated road construction and for increased social security benefit payments.

Consumption rise moderates

Consumer buying helped shape the expansionary economic picture in 1955 and 1956, and again in 1957, though some of the earlier buoyancy was lost in the latest period.

Automobile purchases in number held near those of 1956, but had a higher value. Purchases of other consumer durables were likewise moderately higher in dollar terms and about the same in physical volume. Purchasing of nondurable goods and for services was also higher in 1957, and here the increases were in both dollar and volume terms.

During the closing months of the year, consumers held their buying close to the high for the year. There was some evidence of a lessening tendency to acquire new debt. A more influential factor in the tapering of consumer spending was no doubt the decline in personal income coincident with the higher prevailing prices of goods and services which brought real purchasing power at year-end below a year earlier; this was in contrast to sizable year-to-year gains experienced in 1956 and early 1957.

Differing industrial impact

The broad changes evident in economic developments in 1957 were bound to have a differential impact on industrial markets. Manufacturers were among the first to feel the pressures of readjustments, though output continued high during most of the year. However, the subsequent slide brought manufacturing output by year-end 7½ percent below a year earlier. Within manufacturing, production shifts varied widely. Output of steel was less than 60 percent of capacity in December, compared with virtually full utilization of facilities at the start of the year. On the other hand, production in some industries, notably nondurables, was sustained at year-earlier rates.

Activity changes had a particular impact on the railroad industry; freight carloadings at the end of 1957 were off by one-sixth from a year earlier. While electric power output was affected by the cutback in industrial activity, the underlying growth factors for this industry helped maintain an upward trend. The gain in electric output from 1956 to 1957 was close to 5 percent, but by December the year-to-year gain was half this rate.

In contrast to the decline in industrial production, private construction activity was generally stable. The 2-year decline in residential construction was halted by mid-1957, and a higher rate of activity was in evidence during the second half of the year. Private housing starts for the year as a whole were down about 10 percent from 1956 and 25 percent from 1955.

In line with the record demands of business for fixed capital expansion, nonresidential building continued to rise at a tapered rate through the early summer and then leveled off over the remainder of the year. The dollar total for 1957 was about 7 percent above the previous year.

Easing of money markets at year-end

The change in the general economy in the final months of last year led the Federal Reserve authorities to modify the policy designed earlier to restrain inflationary demands. Discount rates were lowered by one-half of a percentage point in early November. This action, combined with general capital market developments, resulted in noticeably easier credit conditions. By the end of December the decline in short-term interest rates had wiped out the previous year's advance, and long-term interest costs were also lower.

In part, these developments reflected a reversal of borrowing trends by business firms. With working capital needs reduced, business liquidated some of its bank debt, in contrast to the net borrowing which had been underway since mid-1954. While it was still too early to see the impact of these developments on mortgage financing, it seemed clear that for the first time in more than two years some of the influences which had been restricting the availability of residential financing, and perhaps also the financing of State and local government projects, were in the process of change late in the year by the easing of money markets.

Year-end position

Summing up, at the end of 1957 the business situation showed easing tendencies, with the following highlights evident:

1. Consumers in late 1957 were purchasing at a high rate—slightly below the peak reached in the summer of 1957. This reflected record high incomes over most of the year, and more recently a reduction as employment turned down.

Unemployment rose noticeably over the year-end. The impact of this development on incomes was partially offset by higher unemployment compensation. Incomes were also being sustained by somewhat higher basic wage rates, which served in the aggregate to compensate for reduced premiums for overtime work.

2. Business sales were being maintained late in the year at a somewhat better pace than production as some demands were being met from inventories. There was no apparent pressure to liquidate inventories in any cumulative degree, although particular industries were evidently striving to lower stock-sales ratios. The firmness of prices throughout the year was undoubtedly a factor in the orderly adjustment of inventory under way at year-end. While some materials prices had been under a downward stress during 1957, price trends in general were stable or somewhat higher in most markets.

New orders placed with manufacturers fell short of shipments in 1957. Almost half of the consequent reduction in unfilled orders occurred in the transportation equipment industry, primarily in aircraft. However, in the closing months of 1957 the backlog downtrend for aircraft was reversed as defense ordering accelerated sharply from the low rates prevailing in mid-year.

3. The rate of business capacity expansion—and its attendant demands on the Nation's resources—appeared to have reached its crest in late 1957. Forward programs indicated some reduction. There were a few industries in which capacity limitations were at year-end important in shaping output policy, but more typically excess capacity grew moderately with the fall-off in sales. However, the rate of technological progress was high and there were large capital needs to translate the results into business, Government, and consumer use as well as to broaden the fruits of earlier progress.

4. Foreign demands were high for 1957 as a whole, but tended downward over the latter half of the year. These tendencies in export markets contributed to the changed pattern of domestic business activity.

5. Demands of individuals for new residential properties firmed in the latter half of 1957, though at a rate well below the peak reached in 1955. Housing finance in 1957 was undoubtedly affected in special degree by the tightness in credit terms; hence it is possible that the late 1957 easing in money markets could serve to make for greater availability of funds to stimulate effective demand for new housing.

6. Credit stringencies, which reached a peak in the fall of 1957, were greatly eased by the end of the year due in part to the fall-off in business demand for short-term credit and in part to the flexibility of Federal Reserve policies aimed at providing credit needs without permitting the resumption of inflationary pressures. Interest rates—particularly for short-term funds—were lowered sharply in the final months of the year.

7. On the side of expansion at year-end was the prospect of increased Government purchasing. As late as the third quarter of 1957, budgetary considerations were tending to restrict Federal outlays. The changed international situation caused a reappraisal of national security requirements, and the new budgets for the remainder of the current fiscal year and the year ended in June 1959 point to an expansion of Federal outlays.

National Income and Product in 1957

GROSS NATIONAL product totaled $434½ billion for the year, advancing to a new high in both volume and value. The portion of the increase accounted for by prices was greater than the rise in physical output.

Successive quarterly increases carried the seasonally adjusted annual rate of GNP to a record $440 billion in the third quarter. In the final quarter it dropped back to a rate a little below the total for the year as a whole.

Personal income, showing a generally similar pattern of change within the year, was at a record $343¼ billion for 1957. Its 5 percent expansion, about paralleling that in gross national product, centered largely in labor income and transfer payments. Disposable income was up approximately in proportion, and its $13¼ billion advance was matched by a rise of almost the same amount in consumer spending.

The remainder of last year's $20 billion increase in gross national product was accounted for by higher purchases by the Federal and State and local governments. Total investment was about the same as in 1956, with substantial increases in fixed capital outlays by business and in net foreign investment offset by a further decline in residential construction and by the disappearance of inventory accumulation as an expansionary factor.

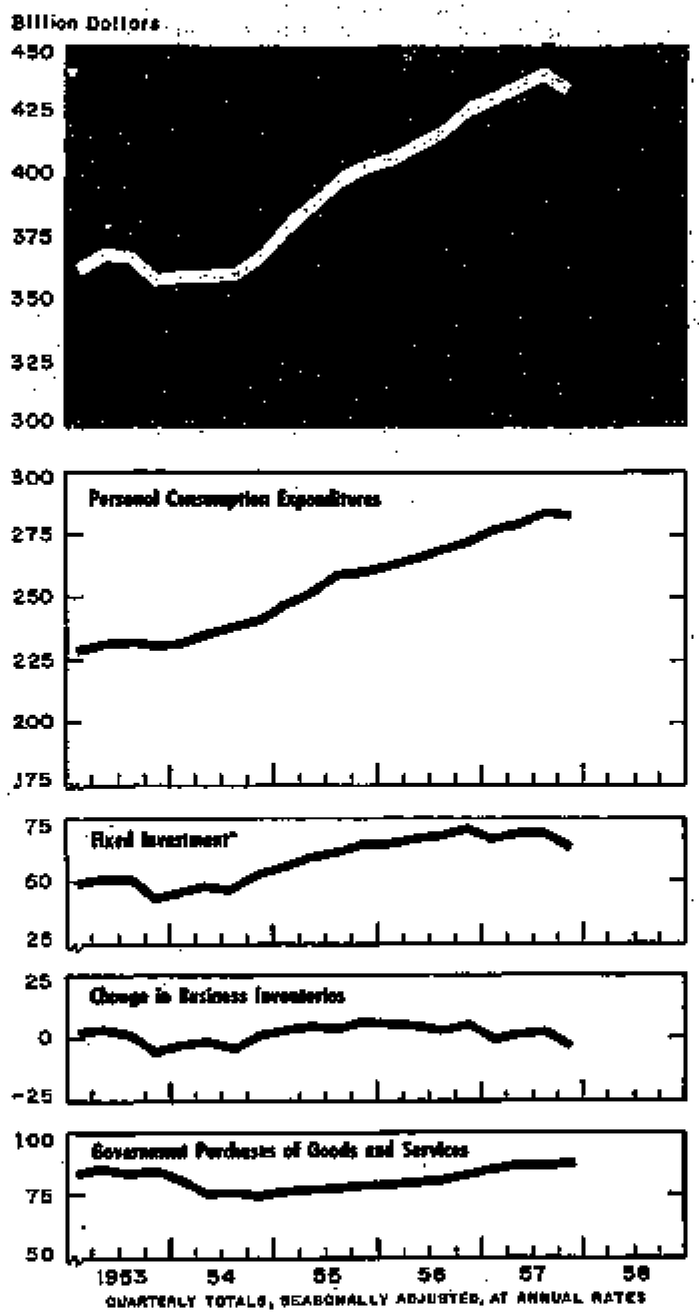
In terms of the distribution of GNP by broad types of product, services showed the sharpest increase from 1956 and construction the least. The output of commodities—both durable and nondurable—was up about 5 percent in value. (See table 2.)

The industrial structure of production in 1957 featured a corresponding relative expansion in the service and utility industries, and certain lines were clearly affected by trends in construction activity. However, shifts within the year seem to have been much more marked than those which emerge from a comparison of the year as a whole with 1956. The industry changes which took place in the course of 1957 included, in particular, a softening which was widespread among manufacturing lines and extended to certain branches of transportation and mining as well.

GNP down in final quarter

Recent quarterly changes in gross national product and in final purchases are presented in table 3. The total GNP is the more closely related to the current employment situation. The movement of final purchases is significant as abstracting from the volatile inventory-change item to uncover tendencies in the larger segments of the Nation's market.

Gross National Product By Major Components



* Including net foreign investment

U. S. Department of Commerce, Office of Business Economics 58-2-5

The lowering of GNP in the fourth quarter of 1957 reflected a leveling off in final demand and limited but widespread liquidation of business inventories. Final purchases were affected by a continuation of earlier declines in outlays for national defense and in exports, as well as by a dip in consumer purchases as disposable income fell off slightly from the third-quarter rate. The principal offsets to these declines were in fixed investment—including residential building—and in purchases of State and local governments.

While the fourth-quarter reduction of final purchases was in itself relatively small, it contrasted with a long series of previous quarterly advances averaging \$5–\$6 billion. The reversal of direction thus represents a major shift in final demand.

Changes in prices and real output

The volume of output rose about 1 percent above the previous alltime high reached in 1956. (See table 4.) Total man-hours worked evidently were about the same in the two years.

Within the year 1957, the physical volume of production held approximately stable during the first 3 quarters before receding from its high plateau. The rate of total output in the fourth quarter was off moderately from a year earlier, though the final purchases aggregate held about even.

Among the broad categories of gross national product, price advances from 1956 to 1957 were most pronounced in business plant and equipment and in Government purchases. Advances in these lines tapered last year, however, with the slowing expansion of real investment.

Consumer-goods prices rose on a broad front during most of the past 2 years, and for 1957 as a whole durables, nondurables, and services alike showed increases of 3 to 3½ percent. For the total GNP, the rise in the implicit price deflator last year exceeded by nearly a percentage point the 3-percent advance from 1955 to 1956.

Rise in incomes

The national income at \$358 billion was up roughly \$14½ billion last year. The continued uptrend in employee compensation accounted for \$13 billion of the expansion. Most other types of income also registered increases.

Corporate profits through the third quarter showed little change from 1956, however, and a drop is indicated for the final quarter. The extent of the decline cannot be computed at this time, in the absence of the requisite basic data.

Consumer Buying

Personal consumption expenditures of \$280¾ billion were up 5 percent in 1957. The peak came in the third quarter, when the seasonally adjusted annual rate reached \$283½ billion. Although a decrease was recorded in the final quarter of the year, consumer buying was still 4 percent higher than in the same quarter of 1956. Most of the 1956–57 rise reflected higher prices, with real volume having increased only moderately.

Table 1.—Gross National Product

[Billions of dollars]

	Total				Changes			
			1957		Dollar		Percent	
	1955	1956	Year	Fourth quarter seasonally adjusted at annual rates	1955–56	1956–57	1955–56	1956–57
Gross national product	391.7	414.7	434.4	432.6	23.0	19.7	5.9	4.8
Personal consumption expenditures	254.4	267.2	280.4	282.4	12.8	13.2	5.0	4.9
Durable goods	35.6	33.9	35.1	34.4	−1.7	1.2	−4.8	3.5
Nondurable goods	125.9	133.2	139.9	140.8	7.3	6.6	5.8	5.0
Services	92.8	99.9	106.4	107.2	7.1	6.5	7.6	6.5
Investment	60.2	67.3	67.6	63.3	7.1	.3	11.8	.4
Change in business inventories	4.2	4.6	.8	−2.7	.4	−3.8	-------	-------
Residential construction	16.6	15.3	14.2	14.5	−1.3	−1.1	−7.8	−7.2
Other	39.4	47.4	52.6	51.6	8.0	5.2	20.3	11.0
Government purchases	77.1	80.2	86.4	87.0	3.1	6.2	4.0	7.7
Federal	46.8	47.2	50.4	49.7	.4	3.2	.9	6.8
State and local	30.3	33.0	36.0	37.3	2.7	3.0	8.9	9.1

Source: U. S. Department of Commerce, Office of Business Economics.

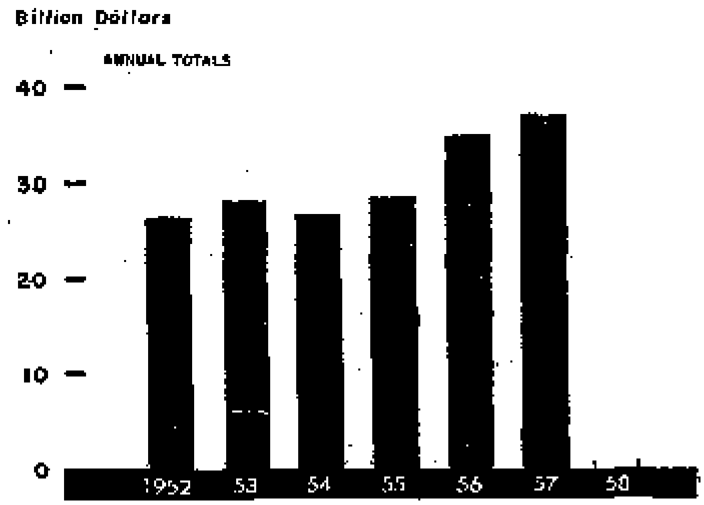
More spent for autos

Consumer outlays for durable goods last year, at \$35 billion, were up moderately from 1956 as dollar auto sales recovered part of the decline which had been registered the year before. Purchases of other durables, chiefly furniture and household appliances, held about even.

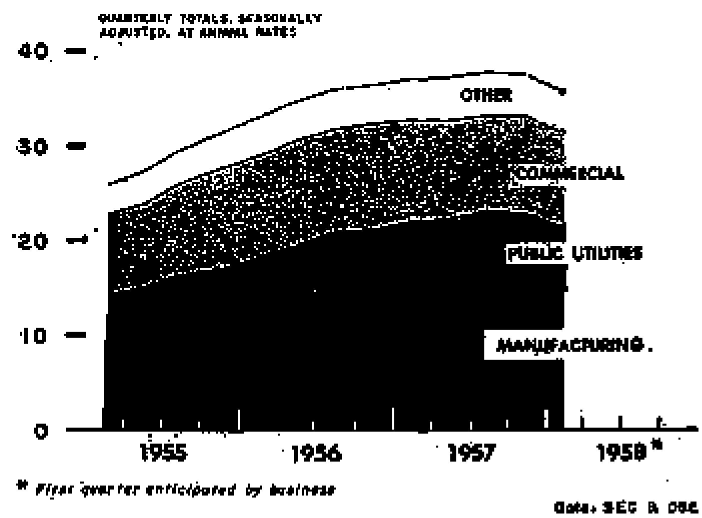
Consumers spent \$15½ billion for autos and parts, \$1 billion more than in 1956 but \$1¼ billion below the record set in 1955. Last year's rise reflected mainly higher prices,

Plant and Equipment Expenditures

Record addition to plant facilities in 1957



Expansion topped off late in year, with program cuts in view for 1958 first quarter



* First quarter anticipated by business

Data: SEC & OBE

U.S. Department of Commerce, Office of Business Economics 58-4-8 partly offset by a small relative shift from medium- to low-priced cars; the number of new autos purchased differed little from 1956.

Outlays for nondurables, services up

Personal consumption expenditures for nondurable goods totaled $140 billion last year, 5 percent more than in 1956. These outlays accounted for one-half of all consumer spending, their fraction of the total leveling off in 1957 after having declined in most other years of the postwar period.

The major part of the 1957 increase in nondurables was in food, where a marked price advance occurred. Outlays for oil and gas continued to rise sharply in 1957. In addition to the effect of higher prices, there was some increase in the physical volume of consumption in each of these categories.

Outlays for clothing and other nondurables increased moderately, though in most cases by lesser amounts than in 1956 and with price rises a significant factor.

Expenditures for consumer services in 1957 advanced $5½ billion above the $100 billion total of the year before. The increase was widely distributed among the various types of services, and a significant part of it reflected a higher volume of consumption. Spending on housing and household operation, for example, rose with the increased number of dwellings and higher average real consumption of utility and other services, as well as with the advances in rentals and some other rates. Somewhat more than half of the total rise, however, seems to have been accounted for by an increase in service prices paralleling that in prices of consumer commodities.

Business Investment

Gross investment in 1957 approximately matched the peak achieved for 1956. A number of important changes occurred in the composition of the total.

Table 2.—Gross National Product, by Major Type of Product
[Billions of dollars]

	1953	1954	1955	1956	1957
Gross national product	363.2	361.2	391.7	414.7	434.4
Goods	206.9	197.4	214.4	226.0	236.6
Durable	79.2	70.7	81.4	86.2	90.1
Nondurable	127.7	126.7	133.0	139.8	146.5
Services	119.1	124.1	132.7	142.6	150.7
Construction	37.2	39.7	44.6	46.1	47.2

Source: U. S. Department of Commerce, Office of Business Economics.

The total value of residential building was lower in 1957 for the second successive year. At its low last spring, the seasonally adjusted annual rate was down $1½ billion, or one-tenth, from the final quarter of 1956. By the final quarter of 1957, about $1 billion of this decline had been recovered.

The drop from 1956 to 1957 in the full-year totals for residential building involved contraction in new mortgage borrowing. The volume of borrowed funds available for residential financing was restricted by the generally tight credit conditions which prevailed over most of the year. In particular, the continuing rise in interest rates for most forms of long-term investment tended to place Government-underwritten mortgages, with their interest-rate ceilings, at a comparative disadvantage. Conventional financing was generally available throughout the year, though at rising rates of interest.

While the rate of home-buying declined, individuals stepped up their accumulation of corporate securities and other financial earning assets. Persons' net purchases of corporate securities amounted to $3 billion in 1957, compared to $5½ billion in 1956 and less than $1½ billion annually in the early postwar period. Savings accounts were likewise up substantially in 1957. Holdings of lower-yielding types of liquid assets, on the other hand, were generally even or down at year-end.

Table 3.—Gross National Product and Final Purchases (Seasonally adjusted annual rates in billions of dollars)

Year and quarter	Gross national product	Less: Inventory change	Equals: Final purchases	Change in final purchases
1956—I	405.2	5.2	400.0	-------
II	410.8	4.6	406.2	6.2
III	416.7	3.3	413.4	7.2
IV	426.0	5.1	420.9	7.5
1957—I	429.9	.0	429.9	9.0
II	435.5	2.9	432.6	2.7
III	440.0	3.0	437.0	4.4
IV	432.6	−2.7	435.3	−1.7

Source: U. S. Department of Commerce, Office of Business Economics.

In the acquisition of assets in 1957, individuals again expanded their debt. The increase was, however, somewhat less than in 1955 and 1956, when the debt expansion was of record proportions.

Further expansion in plant facilities

Most industry divisions contributed to the further rise in plant and equipment expenditures from 1956 to 1957. The largest relative increase occurred in the public utilities, where outlays jumped by more than one-fourth—double the 1955-56 rate of rise. The railroads raised their total expenditure by about one-eighth, as did the communications industry. Other industries generally reported investment up moderately, though in the commercial group it was off some 10 percent from the record 1956 figure. In terms of dollar magnitude, the principal increases were those recorded for manufacturing, the utilities, and the railroads.

Manufacturing investment up

Manufacturers' outlays for new plant and equipment totaled $16 billion in 1957, 7 percent more than in the previous year. Programs of durable- and especially nondurable-goods producers contributed to the rise.

In each branch the largest relative increases from 1956 were those reported by basic materials producers. Table 7 compares these increases with those for other manufacturers.

Durable-goods manufacturing industries outside the primary metals groups showed mixed trends, depending on the markets for their own products. A number of industries such as nonelectrical machinery, selling primarily to business on capital account and to government, raised their investment programs. Those producing consumer durable goods, residential construction materials, or related products, on the other hand, generally invested less in 1957 than in 1956.

The electric and gas utilities, which had been increasing their fixed investment virtually uninterruptedly during the postwar period, reported a further sharp expansion in 1957. Gas companies' spending rose the more rapidly in the first half, but turned down toward year-end, while expenditures by the electric utilities continued upward and are expected to rise still further in the initial quarter of 1958.

The substantial expansion in railroad outlays in the first three quarters of last year carried the 1957 total above 1956 despite a drop in the fourth quarter.

Financing corporate investment

Last year's increase over 1956 in business fixed investment was essentially a reflection of the expanded outlays of corporations. These were financed without a repetition of the substantial 1956 rise in long-term bank borrowing, as flotations of new corporate bonds and other securities jumped from $8 billion to $11 billion, a postwar high. Nearly all major industry groups increased their calls on the capital markets in 1957.

Debt issues continued to account for by far the larger part of corporate security financing, and came to market in heavy volume throughout the year. Equity offerings, in contrast, tapered somewhat in the latter half.

As the Corporate Financing chart makes clear, internal sources in 1957 were again the mainstay of corporate financing. For the second successive year, corporations supplemented their operating sources—retained earnings and depreciation allowances—by liquidating Federal securities. These three internal sources combined provided a total of $28 billion in 1957—a little less than the year before, but well above any prior year.

While the demand for long-term funds remained extremely high in 1957, corporations' use of new short-term financing was greatly reduced. In general, this reduction stemmed primarily from the adoption by business of a more conservative inventory policy, and was most pronounced in the latter part of the year. Accordingly, though the uptrend in short-term business debt to banks which had extended from mid-1954 through 1956 continued at a slower pace in early 1957, repayments matched new borrowing during the summer and appear to have brought about some net liquidation in the final quarter. Virtually all major industry groups showed this slackening of demand for bank funds.

The increase in long- and short-term debt combined, though not so sharp as in 1956, involved further additions to fixed servicing charges; and the higher interest rates on funds borrowed last year also contributed to this effect. With profits somewhat below the previous year, these charges constituted a considerably larger share of corporate income. The ratio of interest payments to profits before taxes and interest was about 13 percent for 1957 as a whole and somewhat higher at year end, as against 11½ percent in 1956. This interest burden, however, was still relatively light by prewar standards; the comparable ratio in 1929 and 1939, for example, was 30 percent.

More conservative inventory policy

A policy of restricting the growth of stocks was initiated early in 1957 in many lines of business. Since the autumn of 1954 a very substantial buildup of inventories had accompanied the widespread expansion of final-use demand, with the marked rise in new and unfilled orders for capital equipment and military hard goods having had an especially strong effect on inventory needs. While aggregate final demand remained high in 1957, its growth slowed; this, together with the continued high rate of fixed investment, contributed to a lessening of pressures on capacity, an easing in supply conditions, and a softening of prices in some market areas. New orders for industrial goods reached their peak late in 1956, and their subsequent decline with output high brought a steady reduction in backlogs of unfilled orders.

For these and other reasons, after the end of 1956 inventories in many lines appeared adequate for current operations, and nonfarm inventory building was reduced to a seasonally adjusted annual rate of $1½ billion during the first 3 quarters of 1957. Even this limited expansion came to an end by September, and stocks were drawn down in the closing months of the year. For 1957 as a whole, apart from the effects of price advances there was virtually no change in total nonfarm inventories.

Table 4.—Gross National Product or Expenditure in Constant Dollars and Implicit Price Deflators for Gross National Product, 1953–57

Item	Gross national product in constant dollars (billions of 1947 dollars)					Implicit price deflators for gross national product (index numbers, 1947=100)				
	1953	1954	1955	1956	1957	1953	1954	1955	1956	1957
Gross national product	305.3	301.3	322.8	332.4	335.2	119.0	119.9	121.3	124.9	129.6
Personal consumption expenditures	197.4	200.9	216.4	222.5	226.1	116.3	117.7	118.1	120.1	124.0
Durable goods	26.7	26.9	32.2	30.5	30.6	111.7	109.0	110.7	111.3	115.0
Nondurable goods	106.4	108.3	115.9	117.0	119.0	112.9	113.4	112.5	113.9	117.0
Services	64.3	67.6	71.3	75.0	76.7	125.0	128.1	130.1	133.2	137.5
Gross private domestic investment	38.5	37.8	46.6	47.6	44.4					
New construction	19.8	21.4	24.7	24.1	23.2	130.1	129.7	132.2	139.0	142.0
Producers' durable equipment	19.0	17.6	18.1	20.1	20.7	127.8	126.1	130.9	139.6	147.3
Change in business inventories	−.3	−1.0	3.8	3.4	.6					
Net foreign investment	−.3	1.2	1.3	3.0	4.0					
Government purchases of goods and services	69.6	61.2	58.4	58.9	60.7	121.2	124.2	129.7	136.3	142.4
Federal	51.1	41.0	37.8	36.3	37.3	116.3	119.2	123.6	129.9	135.3
State and local	18.5	20.2	21.6	22.5	23.4	134.0	137.3	140.3	146.6	153.7
Gross government product [1]	24.6	24.0	23.8	24.0	24.3	128.9	134.1	142.3	150.3	158.1
Other gross product [2]	280.7	277.3	299.0	306.0	310.9	116.1	118.6	119.7	122.8	127.4

1. Compensation of general government employees.
2. Gross national product less compensation of general government employees, i. e., gross product accruing from domestic business, households, and institutions, and from the rest of the world.

Source: U. S. Department of Commerce, Office of Business Economics.

Table 5.—Gross National Product, National Income, and Personal Income, 1955, 1956 and 1957

[Billions of dollars]

	1955	1956	1957	Unadjusted 1957 I	II	III	IV	Seasonally adjusted at annual rates 1956 I	II	III	IV	1957 I	II	III	IV
GROSS NATIONAL PRODUCT OR EXPENDITURE															
Gross national product	391.7	414.7	434.4	104.2	108.1	108.7	113.3	405.2	410.8	416.7	426.0	429.0	435.5	440.0	432.6
Personal consumption expenditures	254.4	267.2	280.4	65.8	69.7	69.3	75.6	262.8	265.0	268.6	272.3	276.7	278.9	283.6	282.4
Durable goods	35.6	33.9	35.1	8.1	8.9	8.4	9.7	34.6	33.3	33.0	34.8	35.9	35.0	35.0	34.4
Nondurable goods	126.0	133.3	139.9	31.6	34.4	34.8	39.2	130.9	132.7	134.4	135.3	137.3	139.1	142.5	140.8
Services	92.8	99.9	105.4	26.1	26.4	26.2	26.6	97.3	99.0	101.1	102.2	103.4	104.9	106.1	107.2
Gross private domestic investment	60.6	65.9	64.4	16.7	15.7	16.9	14.9	64.4	65.3	65.5	68.5	63.8	66.2	66.5	61.3
New construction	32.7	33.3	33.2	7.1	8.2	9.1	8.7	32.9	33.6	33.2	33.4	32.8	32.7	33.0	34.0
Residential nonfarm	16.6	15.3	14.2	2.9	3.5	4.0	3.7	15.7	15.5	15.1	15.1	14.6	13.7	14.0	14.5
Other	16.1	18.0	19.0	4.2	4.7	5.2	5.0	17.3	18.1	18.1	18.4	18.5	19.0	19.0	19.5
Producers' durable equipment	23.7	28.1	30.4	7.5	8.0	7.4	7.4	25.3	27.2	29.0	29.9	30.7	30.5	30.5	30.0
Change in business inventories, total	4.2	4.6	.8	2.2	-.5	.4	-1.2	6.2	4.5	3.3	5.1	.0	2.9	3.0	-2.7
Nonfarm only	4.0	5.0	.2	2.1	-.7	.2	-1.4	6.4	5.0	3.9	5.7	-.3	2.2	2.3	-3.4
Net foreign investment	-.4	1.4	3.2	1.0	.9	.4	.9	-.3	1.2	2.0	2.4	4.1	3.3	3.2	2.0
Government purchases of goods and services	77.1	80.2	86.4	20.7	21.8	22.0	21.8	78.2	79.3	80.6	82.8	85.6	86.9	86.7	87.0
Federal	46.8	47.2	50.4	12.0	12.8	12.7	12.4	46.2	46.4	47.3	49.0	50.3	51.1	50.6	49.7
National security	41.3	42.4	45.7	11.4	11.6	11.5	11.3	41.1	41.6	42.7	44.3	45.5	46.3	45.8	45.0
National defense	39.1	40.4	43.7	10.9	11.1	11.0	10.8	39.1	39.5	40.9	42.0	43.6	44.3	43.8	43.0
Other national security	2.2	2.0	2.0	.5	.5	.5	.5	2.0	2.1	1.9	2.2	1.9	2.1	2.0	2.0
Other	5.9	5.2	5.3	1.3	1.3	1.3	1.3	5.5	5.2	4.9	5.1	5.2	5.2	5.2	5.0
Less: Government sales	.4	.4	.4	.1	.1	.1	.1	.4	.4	.4	.4	.4	.4	.4	.4
State and local	30.3	33.0	36.0	8.7	9.1	9.4	9.4	32.0	32.9	33.3	33.8	35.3	35.8	36.1	37.3
NATIONAL INCOME BY DISTRIBUTIVE SHARES															
National income	324.1	343.6	358.0	87.3	89.5	91.1	....	333.8	340.0	344.6	353.3	355.6	358.5	362.6	....
Compensation of employees	223.1	241.4	254.4	62.0	63.3	65.0	64.1	234.5	240.0	242.7	247.9	251.1	254.0	257.0	255.3
Wages and salaries	210.3	227.2	238.8	57.9	59.2	61.1	60.6	220.9	226.1	228.3	233.8	235.9	238.6	241.3	239.5
Private	174.4	189.4	199.0	48.1	49.4	51.3	50.2	183.9	188.4	190.1	194.7	196.8	199.1	200.9	199.1
Military	9.8	9.7	9.7	2.4	2.4	2.5	2.4	9.7	9.7	9.7	9.7	9.6	9.7	9.8	9.5
Government civilian	26.1	28.2	30.1	7.4	7.4	7.4	8.0	27.3	27.9	28.5	29.5	29.4	29.7	30.6	30.8
Supplements to wages and salaries	12.7	14.1	15.6	4.1	4.1	3.9	3.6	13.7	13.9	14.4	14.0	15.3	15.4	15.7	15.8
Proprietors' and rental income [1]	49.4	49.3	51.2	12.7	12.8	12.9	12.8	49.3	49.7	50.0	50.7	50.9	51.2	51.7	51.3
Business and professional	27.8	28.0	28.7	7.1	7.2	7.3	7.2	27.7	28.0	28.2	28.3	28.4	28.7	29.1	28.6
Farm	11.9	11.0	12.1	3.0	3.0	3.0	3.1	11.4	11.6	11.5	12.0	12.0	12.1	12.2	12.2
Rental income of persons	10.2	10.3	10.4	2.6	2.6	2.6	2.6	10.2	10.3	10.4	10.4	10.4	10.4	10.4	10.4
Corporate profits and inventory valuation adjustment	40.7	40.4	....	10.0	10.0	9.9	....	40.5	39.1	39.8	42.4	41.2	40.7	40.9	....
Corporate profits before tax	42.5	43.0	....	10.8	10.3	10.3	....	43.3	42.4	40.8	45.0	43.9	42.0	41.5	....
Corporate profits tax liability	21.5	22.0	....	5.6	5.3	5.3	....	22.1	21.6	20.8	23.3	22.4	21.4	21.3	....
Corporate profits after tax	21.0	21.0	....	5.3	5.0	5.0	....	21.2	20.7	19.9	22.3	21.5	20.5	20.4	....
Inventory valuation adjustment	-1.7	-2.6	....	-.7	-.3	-.3	....	-2.8	-3.2	-1.0	-2.6	-2.7	-1.3	-.6	....
Net interest	10.9	11.9	12.8	3.1	3.2	3.2	3.3	11.5	11.7	12.0	12.3	12.5	12.7	13.0	13.2
Addendum: Compensation of general government employees	33.9	36.1	38.4	9.4	9.6	9.5	9.9	35.0	35.8	36.6	36.9	37.5	38.0	39.0	39.0
PERSONAL INCOME AND ITS DISPOSITION															
Personal income	306.1	326.9	343.4	83.0	85.3	87.4	87.7	318.5	325.1	328.7	334.5	338.3	343.2	346.9	345.5
Less: Personal tax and nontax payments	35.8	39.7	42.8	11.3	11.8	10.6	9.1	38.9	39.6	39.8	40.5	42.2	43.0	43.6	43.4
Federal	31.6	35.1	37.8	10.0	10.3	9.5	8.0	34.4	35.0	35.2	35.8	37.4	38.0	38.6	38.3
State and local	4.2	4.6	5.0	1.3	1.4	1.1	1.1	4.5	4.5	4.6	4.7	4.9	4.9	5.0	5.1
Equals: Disposable personal income	270.2	287.2	300.6	71.7	73.5	76.8	78.6	279.6	285.5	288.8	294.0	296.1	300.4	303.3	302.1
Less: Personal consumption expenditures	254.4	267.2	280.4	65.8	69.7	69.3	75.6	262.8	265.0	268.6	272.3	276.7	278.9	283.6	282.4
Equals: Personal saving	15.8	20.0	20.2	5.9	3.8	7.5	3.0	16.8	20.5	20.3	21.7	19.3	21.4	19.7	19.8

1. Includes noncorporate inventory valuation adjustment.

Source: U. S. Department of Commerce, Office of Business Economics.

Rise slows in manufacturing

The machinery, aircraft, and fabricated metals industries, which under the impetus of the continued upswing in demand for producers' durables and for defense equipment had accounted for a major part of the 1956 increase in all durables manufacturers' inventories, last year reported comparatively little change. Sales being fairly well maintained, the stock-sales ratio for these industries at the end of 1957 was about the same as a year earlier. In primary metal manufacturing, however, the total value of ferrous producers' stocks in particular continued to rise almost to the end of 1957; and, with sales declining, the inventory ratio increased substantially.

In the nondurable-goods industries, accumulation tapered during the first half, and liquidation developed thereafter. For the year as a whole, increases were smaller than those of 1956 in most of the lines for which separate data are available. In general, stock-sales ratios showed moderate increases.

The limited rise in book value of manufacturers' inventories during 1957 centered in finished goods. Among nondurables producers, apart from a rise in the petroleum groups such stocks were generally stable in 1957. Most durable-goods industries, by contrast, reported increases in holdings of finished stocks; in the aggregate, these rose almost as much last year as during 1956, and fully accounted for the 1957 growth of inventory book values in these industries.

Trade inventories cut

After rough adjustment for the price factor, the tendency to liquidation appears to have been general both in wholesale and in retail trade, although automotive stocks and the holdings of food retailers may be noted as exceptions. Retail sales of nondurables rose through the greater part of the year, and the stock-sales ratio for these stores was considerably lower at the end of 1957 than a year earlier, with most lines of trade contributing to the reduction. Among major hard-goods retailers, the principal change in such ratios was a substantial rise for auto dealers.

Both durable- and nondurable-goods wholesalers' stocks showed substantial net liquidation last year, if allowance is made for the higher average unit prices reflected in the book values at year-end.

The adjustment in business inventories which featured the final quarter of the year reduced stocks in manufacturing and trade overall by less than $1 billion, or roundly 1 percent.

The pattern was broadly consistent with the tendencies apparent for the year as a whole in contrast to 1956. In manufacturing, the drop centered in durables lines, as had much of the earlier tapering in inventory growth. In the fourth quarter the primary nonferrous metals group joined the general trend to liquidation. By stage of fabrication, the cuts were mainly in goods in process of durables producers and in holdings of purchased materials.

In trade, inventories were reported up in the fourth quarter by durable-goods retailers—nonauto as well as auto—while the overall liquidation of nondurables was accelerated.

Government Purchases

Government purchases of goods and services were up $6 billion in 1957, with the Federal Government accounting for half the advance and for nearly three fifths of the year's $86¾ billion total. Rising prices contributed in large measure to the expansion in dollar outlays. The rate of expenditure leveled off in the latter half of 1957, as increases in State and local purchases were offset by reductions in Federal defense spending (table 8).

The advance in Federal Government purchases centered in national security outlays. These outlays—which include purchases for the military assistance program, the development of atomic energy, and the stockpiling of strategic and critical materials—reached an annual rate of $46½ billion in the April–June quarter, and then tapered off somewhat in the latter part of the year. Expenditures for major military

Table 6.—Relation of Gross National Product, National Income, and Personal Income, 1955, 1956 and 1957

[Billions of dollars]

	1955	1956	1957	Unadjusted 1957 I	II	III	IV	Seasonally adjusted at annual rates 1956 I	II	III	IV	1957 I	II	III	IV
Gross national product	391.7	414.7	434.4	104.2	108.1	108.7	113.3	408.3	410.8	416.7	425.0	429.9	435.6	440.0	432.6
Less: Capital consumption allowances	31.0	34.3	37.1	9.0	9.2	9.3	9.6	33.3	33.9	34.0	35.3	36.1	36.6	37.4	38.2
Indirect business tax and nontax liability	32.9	35.0	36.9	8.8	9.2	9.4	9.6	34.1	34.7	35.1	36.1	36.4	36.6	37.1	37.4
Business transfer payments	1.3	1.3	1.3	.3	.3	.3	.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Statistical discrepancy	2.1	1.6	....	−1.6	−.1	−1.1	....	1.5	1.3	2.3	1.6	1.6	4.1	3.4	....
Plus: Subsidies less current surplus of government enterprises	.2	1.1	1.3	.2	.4	.4	.4	.8	1.0	1.1	1.6	1.4	1.6	1.7	1.4
Equals: National income	324.1	343.6	358.0	87.6	89.4	91.1	....	335.8	340.6	344.5	353.3	355.6	358.5	362.0	....
Less: Corporate profits and inventory valuation adjustment	40.7	40.4	....	10.0	10.6	9.9	....	40.5	39.1	39.8	42.4	41.2	40.7	40.9	....
Contributions for social insurance	11.0	12.4	14.4	4.1	4.1	3.4	2.8	12.0	12.2	12.5	12.8	14.2	14.3	14.6	14.5
Excess of wage accruals over disbursements	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0	.0
Plus: Government transfer payments	16.1	17.2	19.9	4.8	5.1	4.9	5.2	16.6	17.1	17.4	17.7	18.4	20.0	20.0	21.2
Net interest paid by government	5.2	5.7	6.0	1.3	1.5	1.5	1.4	5.6	5.7	5.8	5.9	6.0	6.0	6.0	6.1
Dividends	11.0	11.9	12.1	3.0	2.9	2.9	3.4	11.7	12.0	12.1	11.5	12.4	12.5	12.6	11.7
Business transfer payments	1.3	1.3	1.4	.3	.3	.3	.3	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.4
Equals: Personal income	305.9	326.9	343.4	83.0	85.3	87.4	87.7	318.5	325.3	328.7	334.6	338.3	343.2	346.1	345.5

Source: U. S. Department of Commerce, Office of Business Economics.

procurement items were one-eighth above the 1956 total, reflecting stepped up procurement of aircraft and guided missiles. Expenditures for the testing and evaluation of newly developed weapons and other military items also increased during the year.

Nonsecurity purchases, including the price-support operations of the Commodity Credit Corporation, showed little overall change from 1956.

State and local government outlays for goods and services, which have increased each year in the postwar period, advanced 9 percent last year to a total of $36 billion. Compensation of employees, outlays for construction, and purchases of other commodities and services from business were all at peak yearly totals.

As shown in table 8, total Government expenditures include not only purchases of goods and services but also transfers, interest payments, subsidies, and, in the case of the Federal Government, grants-in-aid to the State and local governments.

As measured in national income accounts, Federal expenditures totaled more than $79 billion last year as compared with $72 billion the year before. As already noted, $3 billion of this increase reflected expanded purchases. Transfers were also higher, a $2½ billion advance covering increased benefit payments under the social security program as well as higher compensation and pension payments to veterans. Grants to State and local governments were up from 1956, primarily because of the highway program. An increase in subsidy payments reflected the first full year of operation of the soil bank program, together with the greater losses incurred last year in connection with the export of agricultural commodities for foreign currencies.

Federal revenues increased $4½ billion in total, as personal taxes rose with the expansion in income and contributions for social insurance also advanced. With expenditures rising $2½ billion more than receipts, however, the surplus on income and product account was reduced from $6 billion in 1956 to $3½ billion last year.

State and local governments expended a total of $40½ billion last year, $3½ billion more than in 1956. Practically all of this increase was for goods and services. Though it was accompanied by increased property and sales taxes and larger grants-in-aid from the Federal Government, the deficit on income and product account rose $½ billion in 1957 to $2 billion.

Table 7.—Plant and Equipment Expenditures

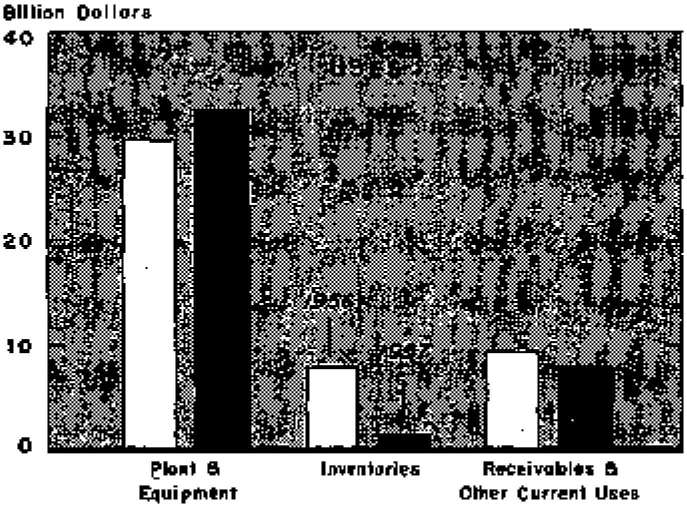
	1956	1957	Change	Percent change
	(Billions of dollars)			
Durable-goods manufacturers	7.6	8.0	0.4	6
Primary iron and steel	1.3	1.7	.4	34
Primary nonferrous metals	.4	.8	.4	106
Other	5.9	5.5	−.4	−8
Nondurable-goods manufacturers	7.3	8.0	.7	9
Chemicals	1.5	1.8	.3	20
Petroleum	3.1	3.5	.4	12
Other	2.7	2.7	.0	0

Source: U. S. Department of Commerce, Office of Business Economics.

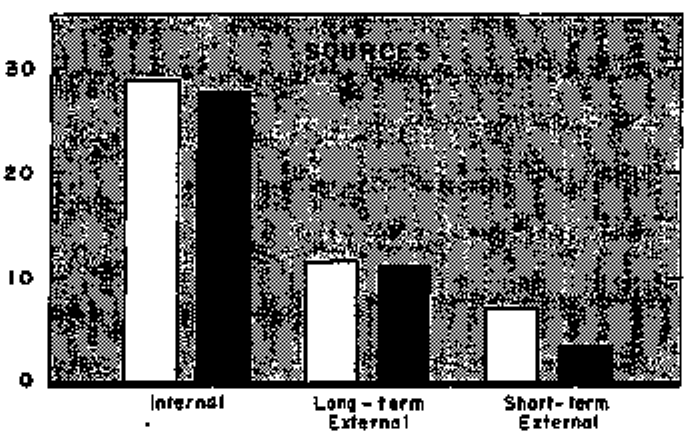
CORPORATE FINANCING

New Capital Requirements In 1957 Featured:

- Further expansion of fixed capital outlays
- Sharply reduced inventory accumulation



- Curtailed short-term borrowing
- Same relative use of internal resources and long-term external financing



Data: Based on SEC & other financial data

U. S. Department of Commerce, Office of Business Economics 58-2-5

Implications of new budget

Federal purchases moved up in each quarter of 1956 and continued to rise through the second quarter of 1957, when defense outlays began to taper off. However, in light of the latest budgetary estimates of Federal expenditures for the fiscal years 1958 and 1959, these expenditures are expected to strengthen in the next several quarters.

Table 9 summarizes Federal receipts and expenditures as shown in the Budget, and presents a translation of these estimates to the income and product account basis. A moderate increase over the October–December 1957 rate of purchases is projected by the middle of 1958; and for fiscal year 1959 as a whole the Budget implies a purchases total up about $2 billion from fiscal year 1958. Around three-fourths of this increase is programmed for defense outlays—covering larger expenditures for guided missiles, nuclear ships, research and development, and newly developed weapons and materials.

The Budget also indicates a further increase of $1 billion in fiscal 1959 for the non-purchase items: Grants-in-aid to State and local governments will be greater in 1959, reflecting accelerated road construction under the interstate highway program; and social security benefit payments will continue to advance.

Even prior to the time when the purchases are paid for, the letting of Federal contracts has an important impact on economic activity. In the last half of calendar 1957, obligations covering new contracts for major procurement, construction and other defense items dropped to $8 billion. In the first half of calendar 1958, however, this total is scheduled to rise above $13 billion.

Income Expansion

The 1956–57 rise in the value of gross national product was mirrored in national and personal income. Industrially, the advance in national income was most pronounced in public utilities, trade, service, and finance, and least in manufacturing, mining, and transportation, which usually are much the more sensitive to changes in overall demand. A related pattern appears when last year's rise is analyzed in terms of income types: the typically less sensitive or trend-dominated components, including employee compensation and interest and dividends, rose the most; proprietors' earnings showed a relatively limited advance; and the corporate profits share actually declined. In part, each of these related patterns is traceable to the decline in economic activity which marked the closing months of last year.

Table 8.—Government Receipts and Expenditures on Income and Product Account, 1953–57

[Billions of dollars]

	1953	1954	1955	1956	1957
Federal					
Total receipts	70.4	64.0	72.6	78.2	82.6
Personal tax and nontax receipts	32.4	29.2	31.5	35.1	37.8
Corporate profits tax accruals	19.5	16.7	20.6	21.0	------
Indirect business tax and nontax accruals	11.2	10.1	11.0	11.6	12.3
Contributions for social insurance	7.4	8.1	9.3	10.5	12.5
Total expenditures	77.5	69.4	68.9	72.0	79.1
Purchases of goods and services	59.5	48.9	46.8	47.2	50.4
Transfer payments	9.7	11.6	12.5	13.5	15.9
Grants-in-aid to State and local governments	2.8	2.9	3.0	3.3	4.1
Net interest paid	4.7	4.8	4.7	5.2	5.4
Subsidies less current surplus of government enterprises	.8	1.2	1.8	2.3	3.3
Surplus on income and product transactions	−7.1	−5.4	3.6	6.2	3.5
State and local					
Total receipts	28.7	30.5	33.3	35.8	38.5
Personal tax and nontax receipts	3.4	3.8	4.2	4.6	5.0
Corporate profits tax accruals	.8	.8	1.0	1.0	1.0
Indirect business tax and nontax accruals	19.0	20.1	21.8	23.4	24.6
Contributions for social insurance	1.4	1.6	1.7	1.8	2.0
Federal grants-in-aid	2.8	2.9	3.0	3.3	4.1
Current surplus of government enterprises	1.3	1.4	1.6	1.7	1.9
Total expenditures	28.4	31.5	34.3	37.2	40.6
Purchases of goods and services	24.9	27.7	30.3	33.0	36.0
Transfer payments	3.2	3.4	3.5	3.7	4.0
Net interest paid	.3	.4	.5	.5	.6
Surplus on income and product transactions	.2	−1.0	−1.0	−1.4	−2.0

Source: U. S. Department of Commerce, Office of Business Economics.

Table 9.—Federal Government Receipts and Expenditures: Administrative Budget, Cash Budget, and National Income and Product Account

[Billions of dollars]

	Estimates for fiscal years	
	1958	1959
Administrative budget:		
Receipts	72.4	74.4
Expenditures	72.8	73.9
Surplus or deficit (—)	—.4	.5
Cash budget:		
Receipts	85.1	87.3
Expenditures	84.9	86.7
Surplus	.2	.6
National income and product account:		
Receipts	84.0	86.5
Expenditures	81.0	84.0
Goods and services	50.0	52.0
Other	31.0	32.0
Surplus	3.0	2.5

Sources: Administrative and cash budgets, Bureau of the Budget; national income and product account data, U. S. Department of Commerce, Office of Business Economics, based on estimates in the *Budget* for the fiscal year 1959.

Industry shift

In table 11, the major industry divisions are grouped according to the relative responsiveness or resistance they have shown to the broad movements of national demand since 1953. While there has of course been some diversity of experience among the industries within each group, on the whole the individual industry divisions have conformed rather closely to the group patterns in the four-year period ending in 1957.

The first group includes those lines—manufacturing, mining, and transportation—in which the 1953–54 downswing of national income mainly centered. The subsequent recovery was reflected in a sharp advance in these industries a year later; this increase slowed markedly in 1956, particularly in the case of manufacturing. It tapered still further in 1957, as all three industries reached peaks in the first half of the year and turned down in the latter half.

The second group of industry divisions includes trade, service, finance and public utilities; as noted, these were the industries which registered the strongest relative advances last year. Though the table shows clearly that the course of income in these lines was influenced to some extent by the same broad movements of overall demand which are reflected in the first group, this cyclical influence has been comparatively moderate. Holding closer to an upward trend line, the group showed strength in 1954, a relatively limited spurt in 1955, and a similarly limited tapering of expansion since then. Most of these industries apparently continued to expand throughout 1957.

Recent changes in income from agriculture, contract construction, and government do not fit well into either of the foregoing patterns. The flow of income from government has generally varied like that from the relatively stable industries included in the second group, but with less expansion in 1954 and no tapering of annual growth since.

The contract construction industry likewise conformed throughout most of the period to the pattern shown for the second group, but advanced relatively little in 1957. Income originating in agriculture ended a 4-year decline in 1956 and moved up somewhat last year.

Types of income

The $14½ billion rise in national income from 1956 to 1957 reflected an expansion of $11½ billion in wages and salaries, an increase of $1½ billion in supplements to wages and salaries, and moderate increases in proprietors' income and net interest. Rental income held almost even, and corporate profits were off somewhat.

Payrolls in 1957, at $239 billion, were 5 percent higher than the year before. This relative increase was about equal to that in average hourly earnings. Total man-hours were little changed from 1956, as employment was up about 1 percent and average hours per week were down by about the same fraction.

Employment declined in manufacturing, but advanced in most other areas of the private economy as well as in government. There were marked payroll gains in wholesale trade, services, finance, and State and local governments.

The rise in supplements to wages and salaries reflected the higher social security contribution rate which went into effect at the beginning of the year, as well as increases in employer contributions under pension, health, and welfare plans.

Most of the remainder of last year's national income expansion came in earnings of proprietors, where it reflected a continuing rise in trade and service activity, in particular. Net interest moved up, as in other recent years, with the expansion in the outstanding total of home mortgages and other private debt.

Corporation profits continued during the first three quarters of 1957 at an annual rate not much changed from 1955–56, but a pronounced decline appears to have occurred in the final quarter of last year. The progressive narrowing of percentage margins which has been noted in recent reports on the national income and product was intensified by the year-end drop.

As detailed in the January SURVEY, the industry pattern of 1956–57 changes in profits was broadly consistent with that of total national income.

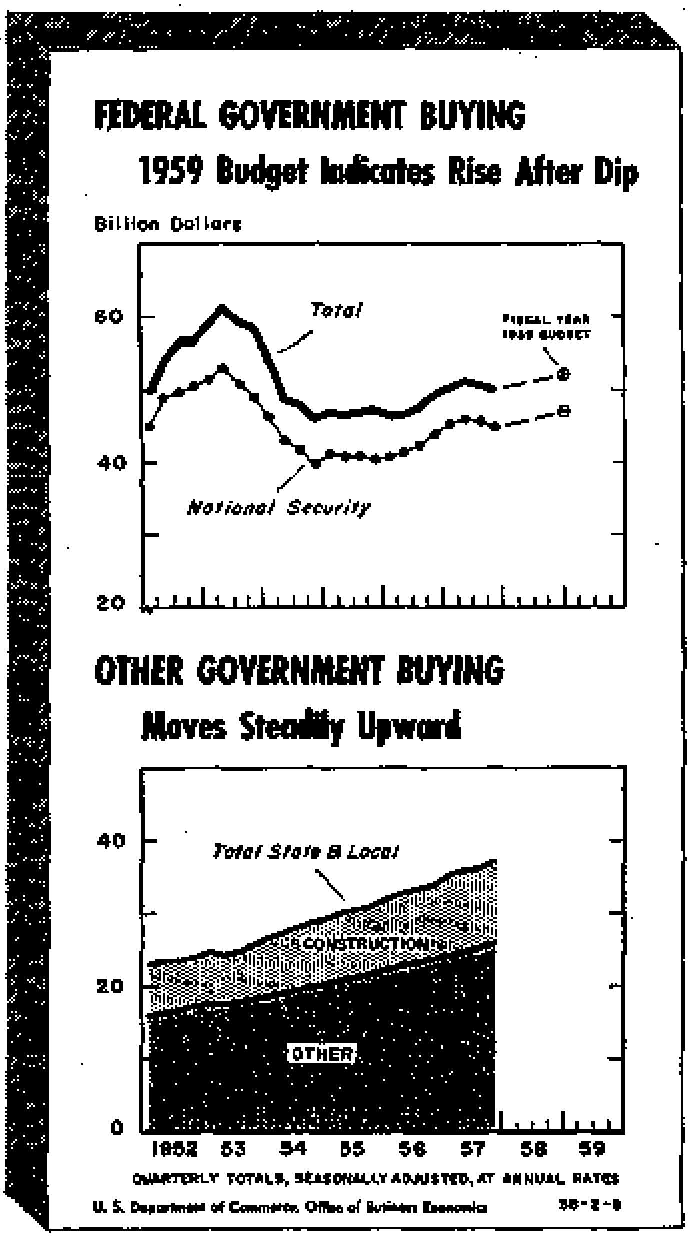


Table 10.—National Income by Major Industrial Division, 1953–57

[Billions of dollars]

Item	1953	1954	1955	1956	1957
All industries, total	302.1	299.0	324.1	343.6	358.0
Agriculture, forestry and fisheries	17.5	16.9	16.2	16.1	16.8
Mining	5.5	4.9	5.4	6.0	6.2
Contract construction	15.1	15.5	16.6	17.7	18.2
Manufacturing	98.4	90.0	102.4	108.1	110.2
Wholesale and retail trade	50.5	51.1	54.8	57.9	60.8
Finance, insurance, and real estate	26.2	28.1	29.3	30.9	32.4
Transportation	15.8	14.5	15.7	16.7	17.2
Communications and public utilities	10.0	10.7	11.5	12.5	13.3
Services	28.5	29.7	32.5	35.8	38.0
Government and government enterprises	35.2	35.8	37.7	40.1	42.6
Rest of the world	1.5	1.8	2.0	2.1	2.4

Source: U. S. Department of Commerce, Office of Business Economics.

Individuals' Purchasing Power

Personal income rose steadily during the early part of last year to an August–September peak of $347½ billion, $12½ billion above the year-end 1956 rate. The ensuing decline was moderate enough to leave two-thirds of this gain intact, and the total income flow for 1957 as a whole set a new annual record, 5 percent above 1956. With consumer prices up about 3½ percent over this period, real incomes in 1957 were also higher than in the preceding year.

Table 11.—Changes in National Income, by Broad Industry Groups

	Percent change				Total income, 1957 (billions of dollars)
	1953–54	1954–55	1955–56	1956–57	
All industries, total	−1.1	8.4	6.0	4.2	358.0
Manufacturing, transportation, and mining	−7.0	12.9	6.0	2.0	133.5
Trade, finance, utilities, and services	4.1	7.2	6.7	5.8	146.9
Other (agriculture, contract construction, and government)	.5	3.3	4.9	5.0	77.6

Source: U. S. Department of Commerce, Office of Business Economics.

The decline in aggregate individual incomes which began early last fall, like the expansion preceding it, centered largely in wage and salary disbursements. By December these disbursements were off 1 percent from their August high. This contraction was cushioned in part by unemployment benefits and other government transfers.

Wages and salaries turn down

The reversal of wage trends which began last September reflected developments in employment, for the most part. There was little change in trend for the other principal factors affecting payrolls, as the downward drift of average hours worked and the upward movement of wage rates continued throughout the year. During the first part of 1957, the moderate reduction in the workweek was offset by increased employment so that the uptrend in total wages and salaries stemmed, on balance, from rising pay scales. Toward year-end, however, the combined effect of declines in employment and hours more than offset the continuing rise in average hourly earnings.

Three-fourths of the decline in total payrolls from their summer high occurred in durable-goods manufacturing. During the first 8 months of 1957, wage and salary disbursements in this important segment of industry had fluctuated little in the aggregate. After August, however, all but one of the durable goods groups registered a reduction in payrolls. (Payments in automobile manufacturing, the exception, were temporarily bolstered in November and December by production of new model cars.)

In nondurable goods manufacturing, total payrolls edged upward in the early part of 1957 as the individual industry groups exhibited stable or moderately rising trends. In the latter part of the year there was some tapering in this area, with activity holding even in some industries and tilting downward in others.

The principal lift to wage and salary income earned in private industry in 1957 came from nonmanufacturing divisions. Payrolls increased more or less steadily throughout the year in the service, finance, and public utility groups. Other major industries also showed increases through the summer, but by year-end disbursements were off moderately in retail trade, mining, transportation, and contract construction.

Other incomes

Income of nonfarm proprietors, like wages and salaries, reached a peak in the summer and has since declined somewhat. Farm proprietors' income exhibited little fluctuation, and the $12 billion rate for the fourth quarter was the same as the total for the year.

Monthly dividend payments were approximately stable through 1957, except for a drop in December which reflected a smaller-than-usual volume of year-end extra and special payments.

Transfer payments increased sharply last spring, as several newly eligible categories of claimants began receiving old-age benefits. Another substantial rise occurred in the fall and early winter. Unemployment benefits accounted for close to three-fifths of this advance, which by December had carried the annual rate of transfers $2 billion above the August figure of $21 billion. Old-age and veterans' benefits also expanded.

Table 12.—Employment, Payrolls, and Average Annual Earnings by Major Industrial Division, 1955–57

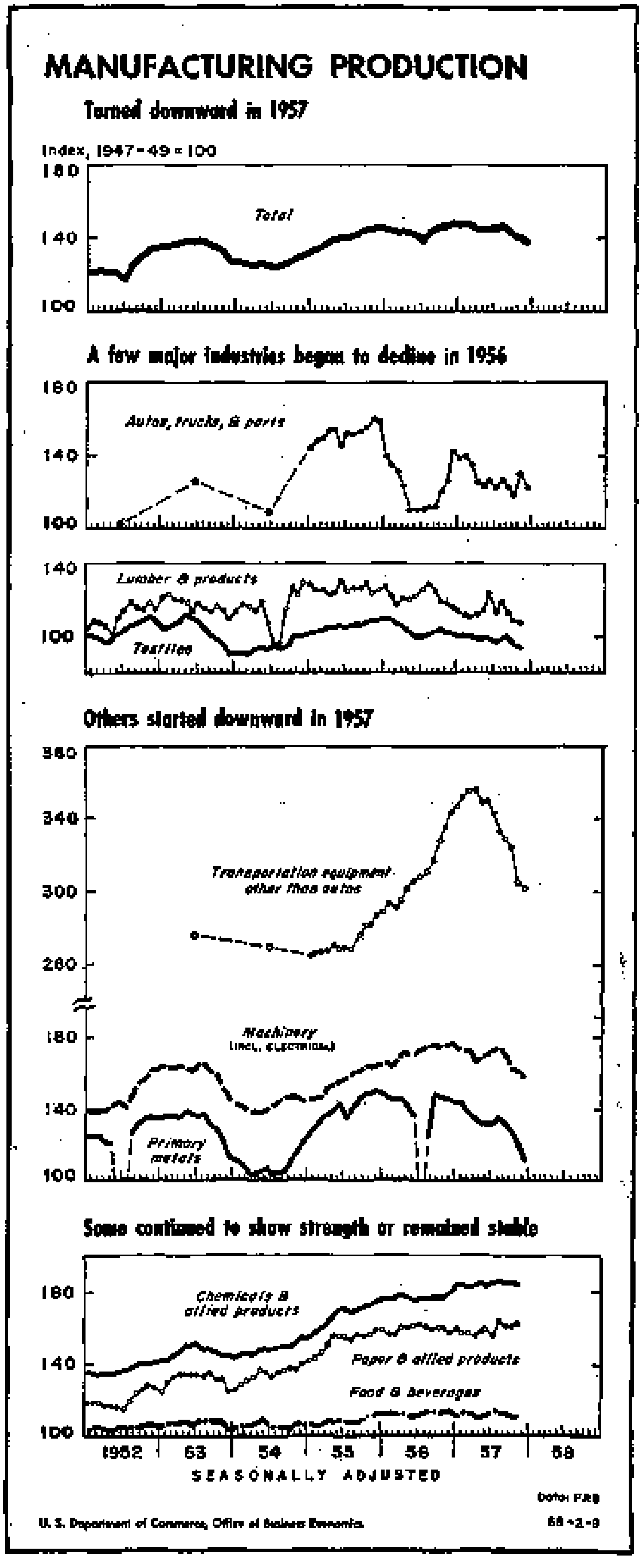
Item	Number of full-time equivalent employees [1]			Wages and salaries			Average annual earnings per full-time employee				
	Data in thousands			Millions of dollars			Dollars			Percent changes	
	1955	1956	1957	1955	1956	1957	1955	1956	1957	1955–56	1956–57
All industries, total	54,902	55,612	56,968	210,439	227,237	238,647	3,831	4,021	4,190	5.0	4.2
Agriculture, forestry, and fisheries	1,952	1,917	1,908	3,116	3,212	3,318	1,596	1,675	1,739	5.0	3.8
Mining	779	817	833	3,656	4,088	4,345	4,693	5,004	5,216	6.6	4.2
Contract construction	2,727	2,876	2,870	11,902	13,330	13,837	4,387	4,643	4,822	5.8	3.8
Manufacturing	16,579	16,944	16,844	72,182	77,829	80,529	4,351	4,582	4,781	5.3	4.3
Wholesale and retail trade	10,056	10,401	10,742	35,759	39,937	42,023	3,456	3,603	3,768	4.3	4.6
Finance, insurance, and real estate	2,185	2,258	2,340	8,817	9,648	10,335	4,032	4,226	4,417	4.8	4.5
Transportation	2,807	2,853	2,824	13,374	13,944	13,960	4,746	5,032	5,282	6.0	5.0
Communications and public utilities	1,409	1,470	1,487	6,240	6,782	7,264	4,432	4,614	4,812	4.1	4.3
Services	6,936	7,318	7,490	19,391	21,417	23,069	2,796	2,927	3,073	4.7	5.0
Government [2]	9,672	9,740	9,860	35,893	37,854	39,597	3,711	3,886	4,037	4.6	3.9
Addendum:											
All private industries	45,230	45,872	47,108	174,446	189,383	199,040	3,857	4,049	4,225	5.0	4.3
All private nonfarm industries	43,422	45,007	45,393	171,730	186,623	196,106	3,955	4,147	4,325	4.9	4.3

1. Full-time equivalent employment measures man-years of full-time employment of wage and salary earners and its equivalent in work performed by part-time workers. Full-time employment is defined simply in terms of the number of hours which is customary at a particular time and place. For a full explanation of the concept, see *Survey of Current Business*, June 1945, pp. 17–18.

2. Includes government enterprises and rest of the world.

Source: U. S. Department of Commerce, Office of Business Economics.

Production Distribution and Prices



PRODUCTION and distribution displayed varying trends among the component parts, but the 1957 aggregates of production and sales matched or bettered the 1956 volume. The generally higher prices at which goods were produced and sold were reflected in larger dollar totals than those recorded in 1956.

Retail sales in dollars were up 5 percent from 1956 to 1957, while the increase in volume was about 3 percent. The value of manufacturing production increased 2 percent while the physical volume of factory output was unchanged. The value of construction was up by more than 2½ percent whereas the volume was down somewhat.

As the year progressed, sales and production tended to slide—earlier in manufacturing and later in retail trade. Industrial production showed no change from 1956 to 1957 as a whole, but the year-end rate was off considerably. Most of the decline was in durable goods. The physical volume of retail trade reached a peak during the summer of 1957 (seasonally adjusted) and subsequently dropped, with only a modest fillip occurring in December from the Christmas trade.

In residential construction a limited improvement was evident in the latter half of 1957 following a period of almost uninterrupted decline beginning in the summer months of 1955. The seasonally adjusted annual rate of new housing starts slightly exceeded 1 million in the July–December period as compared with 960,000 in the first half of the year.

The developments in production reflected the trend of order placement during the year. The easing in output of the durable goods group was foreshadowed by the reduced flow of new business with its accompanying decline in order backlogs. Outstanding orders of the metal fabricating industries declined steadily to a year-end total of $40 billion, a cut of $10 billion. Of this amount, approximately one-half occurred in the nonautomotive transportation equipment sector, chiefly aircraft manufacturing which was most affected by the readjustment of defense programs.

New orders placed for machinery and equipment reflect the tapering off in the capital expansion programs of industry, and the deferment of orders for certain military end-items.

The accompanying table shows the 1955–57 comparisons for the major categories of production and trade.

Industrial Production

The downturn in industrial output in the closing months of 1957 followed a 2-year period of high operations. The extent of change in output, as the production chart makes clear, varied widely among the major manufacturing industries. In general, output in some industries in the fourth quarter was maintained at or close to peak rates; for a large group the decreases from earlier highs were moderate, generally under 5 percent. Decreases were more pronounced for the durable goods group as demands for producers', military, and consumer durable goods abated.

Record output of producers' goods

Activity in the metal fabricating industries, supported by especially large backlogs at the beginning of the year, averaged higher in 1957 than in 1956. Output of transportation equipment, including motor vehicles, instruments, and fabricated metal parts increased while machinery production showed little change.

Operations in some defense lines were affected by the cancellation of defense orders and the slowdown in the procurement of certain military end-items. Others—such as those working on missiles and other products of advanced technology—increased sharply.

The direct effect of the drop in new order placement is evident from the production curve of the nonautomotive transportation equipment industry. The reduction was centered almost wholly in plants producing military type aircraft for government account. Output of commercial planes for the year as a whole expanded sharply, up roughly one-fourth, though shipments in the October–December period were below earlier highs. Moreover, the development of and work on missiles and rocketry, the bulk of which is performed in aircraft plants, was not only more active than in 1956 but was also speeded up particularly in the closing months of the year. Unfilled orders held by the aircraft manufacturing industry at the end of 1957 were as high as at the end of 1954 when they totaled $15 billion.

Production of other major lines of transportation equipment generally expanded in 1957. Shipyards were especially active throughout the year for both government and commercial account and backlogs in this industry continue large.

Builders of freight cars kept plant operations at an exceptionally high level by turning out 100,000 cars in 1957, the highest total since 1948. Monthly shipments during the year exceeded incoming business by a considerable margin as the railroads felt the impact of declining traffic and earnings. From 117,000 cars at the beginning of 1957 unfilled orders went to 56,000 cars at the year end. Locomotive shops on the other hand delivered somewhat fewer diesel-electric locomotives than in 1956 when 1,445 units were shipped.

Machinery: A good year

Activity in the machinery industry, as the chart shows, was well maintained at a high rate through the third quarter of 1957 and then declined with December output 8 percent below the average of the first 9 months but still slightly above the average of 1955.

Production of most machinery products for the year as a whole equaled or exceeded the previous year's volume, with some lines—generating and transmission equipment for the electric utility industry, electronic components and equipment for both military and commercial use, and certain types of industrial machinery—showing greater than average strength.

In some lines—metalworking machines, wheel-type and track laying tractors, typewriters, and certain types of industrial machinery, for example—the drop from the top rates of output has been large.

Table 13.—Changes in the Physical Volume of Production and Trade

	Percent change		
	1955 to 1956	1956 to 1957	4th quarter 1956 to 4th quarter 1957
Industrial production	+3	0	−5
Durables	+3	0	−8
Nondurables	+2	+1	−2
Minerals	+6	−1	−5
Volume of construction	−2	−1	+1
Residential	−10	−8	−4
Farm production	+1	0	....
Volume of retail trade	+2	+3	+2

Sources of basic data: Board of Governors of the Federal Reserve System; U. S. Departments of Commerce, Labor, and Agriculture.

Shipments of machine tools for the year were close to the high 1956 results, but on a monthly basis dropped from an average of $82 million in the first half of 1957 to $55 million in December, a decline of one-third. The flow of new business began to decline from an exceptionally high rate early in 1956 and continued down through 1957. In the fourth quarter, new orders for machine tools amounted to $75 million, a drop of three-fifths from the first quarter rate of 1957 and three-fourths from the same quarter of 1956. Backlogs at the 1957 year end represented 3 months' shipments as compared with 6 months at the beginning of the year.

Passenger cars up, household goods down

Aggregate production of consumer durable goods, as measured by the Federal Reserve index (1947–49=100), was about the same in 1957 as in 1956 which in turn was 11 percent below the peak year, 1955. An increase in assemblies of passenger cars, reflecting a build-up in dealers' inventories rather than any particular change in retail sales, offset the decline in major household goods—chiefly appliances and television sets.

The auto industry bettered its 1956 production performance by 300,000 units, all passenger cars, though total assemblies continued below the record total of 1955. The year's production consisted of 6.1 million passenger cars and 1.1 million trucks, a total of 7.2 million. Within the year, output of passenger cars ran well above the 1956 volume until the final quarter of 1957 when assemblies were cut back sharply in line with the reduced rate of consumer purchases of the new 1958 models. This curtailment continued in January and February of 1958.

Table 14.—Industrial Production

[Index (1947-49=100); seasonally adjusted]

	Total	Manufacturers		Minerals
		Durables	Nondurables	
1956				
1st quarter	142	158	129	129
2d quarter	142	158	129	129
3d quarter	141	156	129	128
4th quarter	146	165	130	130
Year	143	159	129	129
1957				
1st quarter	146	163	131	132
2d quarter	143	160	130	129
3d quarter	144	161	131	128
4th quarter	139	152	128	124
Year	143	159	130	128
Percent change				
3d quarter 1957 to 4th quarter 1957	−3.5	−5.6	−2.3	−3.2

Source: Board of Governors of the Federal Reserve System.

Production of electrical household appliances in 1957 was approximately 10 percent below 1956 output. Most of the major lines—the relatively new as well as the old-established products—were affected, with decreases in output from the 1956 peak ranging from 3 percent for dishwashers to 15 percent for washing machines. Moreover, output of such relatively new products as room air conditioners and clothes dryers—which had registered continuous year-to-year production gains throughout the postwar period—showed decreases exceeding 10 percent. An exception to the general downtrend occurred in washer-dryer combinations where output almost doubled.

Black and white television receiver production of 6.4 million sets was 14 percent below 1956, but the output of home-type and auto radios increased for the second successive year and crossed the 15 million mark for the first time since 1948. Equally impressive were the record sales of more than 5 million phonographs of all types and 500,000 tape recording machines for home use—both substantially above 1956 totals. The market for color television receivers improved but the volume is still low.

Pressure on basic metals eases

Aggregate supplies of industrial raw and semifinished materials in 1957 were somewhat below the record volume of 1956. Overall consumption of materials for the year, however, showed little change from 1956 as fabricators in many cases used up inventories of materials on hand. This was especially true in the case of metals.

The sharp expansion in steelmaking facilities underway since 1950 continued in 1957. More than 7 million tons were added to the Nation's steel capacity, raising the total on January 1, 1958 to a record 140.7 million tons.

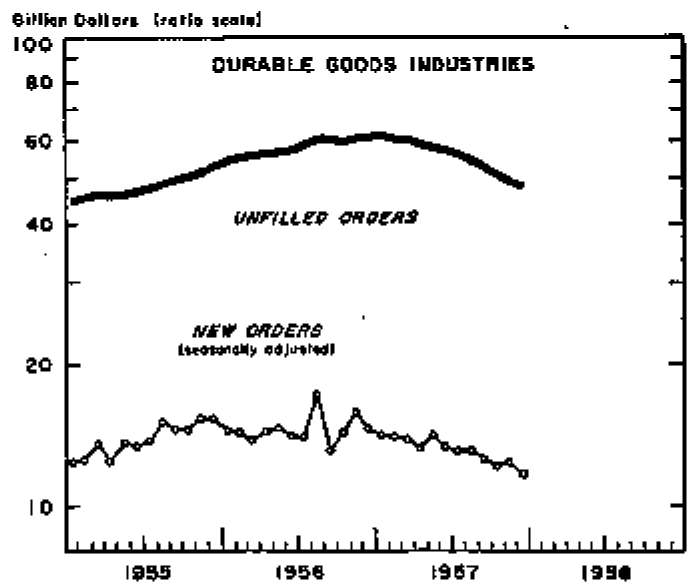
The industry turned out 112.7 million tons of steel ingots and castings in 1957, a total exceeded only in the two previous years. The record rate of steel operations in the fourth quarter of 1956, a period when steel users were rebuilding strike-depleted inventories, was approximately maintained in the first 3 months of 1957. Thereafter, output moved lower.

In the final quarter of 1957, output at 25 million tons was down one-fifth from the near record volume of the first quarter, with December tonnage at 7.4 million tons, the lowest except for strike affected periods since September 1954. In January and early February the downdrift in steel mill operations was extended.

Nonferrous metal supplies as a whole in 1957 were little changed from the high volume of 1956 as domestic production, despite some cutbacks in the latter part of the year, augmented by a large and steady flow of imports, continued in substantial volume. Output of aluminum declined less than 35,000 tons, the first year-to-year reduction for this metal in nearly a decade.

Manufacturers' Backlogs

Reduced as orders fell below shipments after 1957 first quarter



U. S. Department of Commerce, Office of Business Economics 58-2-7

Production cutbacks of nonferrous metals lagged well behind the drop in shipments to fabricators and, notwithstanding larger sales of copper, zinc, and aluminum to the Government under contract agreements, refiners' stocks of these metals expanded during the year. In the case of aluminum, stocks now stand around 175,000 tons as compared with 102,000 a year ago. An even higher relative buildup occurred in zinc while the quantity of copper and lead held by producers increased by sizable amounts.

Since the turn of the year additional curtailments in the output of nonferrous metals have been put into effect. The high supplies and less aggressive bidding by consumers of these 3 metals contributed to production cutbacks, and to price declines from earlier highs when copper, for example, temporarily reached 47 cents a pound in March 1956 before dropping back to 36 cents in January 1957 and to 26 cents in December.

In general, the reductions from 1956 output of materials other than metals were moderate, except in the case of a number of building materials and equipment. Production of chemical products, and in particular the inorganic and organic lines, reached a new peak in 1957. Bituminous coal production turned downward after having expanded the previous year.

Crude oil operations reflected the fluctuating demand caused largely by the blockade of the Suez Canal which extended well into 1957. Daily average crude oil output dropped from a high of 7.8 million barrels in March, just prior to the reopening of the Canal, to an average of 6.8 million barrels in the fourth quarter of 1957, a decline of 13 percent.

Table 15.—Value of Manufacturers' Sales

[Billions of dollars]

Industry	1954	1955	1956	1957
All manufacturing	282.4	316.1	332.6	340.6
Durable-goods industries, total	134.8	156.9	165.7	169.9
Primary metals	20.1	25.5	28.3	27.6
Fabricated metals	14.7	16.3	17.7	18.4
Machinery (incl. electrical)	38.5	41.4	47.9	51.0
Transportation equipment (incl. motor vehicles)	31.0	38.4	40.0	40.0
Lumber and furniture	11.4	13.2	13.4	11.6
Stone, clay, and glass	7.3	8.7	9.0	8.5
Other durable-goods industries	11.3	12.6	12.4	12.7
Nondurable-goods industries, total	147.6	159.1	166.9	170.7
Food and beverages	47.4	49.3	49.7	52.0
Tobacco	3.7	3.9	4.1	4.3
Textiles	12.2	13.0	13.6	13.0
Paper	8.8	9.9	10.7	10.8
Chemicals	18.1	21.4	22.8	23.4
Petroleum and coal	27.6	30.3	33.2	34.9
Rubber	4.6	5.7	5.6	5.8
Other nondurable-goods industries	24.3	25.1	28.0	26.0

Source: U. S. Department of Commerce, Office of Business Economics.

Production of nondurables high

Record output of nondurable goods featured most of the year, but an edging off was apparent towards the year end. For some industries, such as chemicals, paper, and printing and publishing which have shown strong growth trends in the post decade, output in the 1957 final quarter held steady at or near peak rates and for the year as a whole generally registered new records.

Production of cigarettes expanded for the third consecutive year, reaching a new top in 1957, and production of manufactured foods and shoes held at a high pace throughout 1957.

Clothing production held relatively steady until the late fall months of 1957, while output of textile mill products continued its irregular downdrift.

Summary of manufacturers' sales

Manufacturers' sales in dollars are given, by major industries, in the accompanying table. These figures include some interindustry transactions and so do not represent the value of sales to final users. However, they do reflect the shifting pattern of the past 3 years.

Construction Activity

Construction expenditures were at a record in 1957, as public construction outlays increased. Total private building was about unchanged, with an increase in nonresidential offsetting a decline in residential activity. Costs of construction again moved upward, and accounted for the higher dollar figures reported for the year.

A feature of the year was the halt in the declining trend of residential units around midyear. As a result starts were raised above the rate of the first 6 months, though for the year 1957 the 990,000 of privately financed housing units undertaken were less than for any year since 1949.

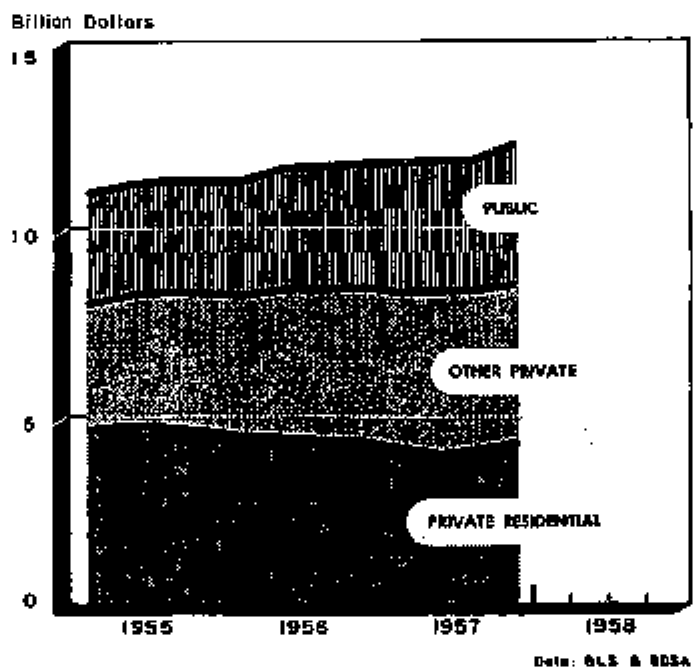
Starts reached their low point in the recent decline in the first quarter of 1957 with a seasonally adjusted annual rate of about 940,000 units, a decrease of almost one-third from the previous peak reached in the second quarter of 1955. By late spring they had risen to a seasonally adjusted annual rate of about 1 million units, remaining close to this rate for the remainder of the year.

More apartment houses

Private apartment house construction ran counter to the movement in single family units for the year as a whole. In the first 9 months of 1957 the number of multifamily units put under way was running 50 percent above the corresponding 1956 figure, a year in which 82,000 units were started. The continuation of low vacancy rates, the continued rise in residential rents and urban redevelopment work have been some of the factors favoring the expansion of new apartment house construction in the recent period.

Construction Outlays Rose in 1957

- Advances in public and private nonresidential construction offset fall in residential
- Residential made some recovery in second half



U. S. Department of Commerce, Office of Business Economics 58-2-10

In the field of single family housing comparative changes in average unit costs and prices suggest a continuation of the trend towards somewhat larger houses. But this differential in 1957 was somewhat smaller than in other recent years and is probably affected by the fact that housing starts in the South, where average unit costs are lower, held up better than in other parts of the country.

Sharp decline in VA housing starts

Money market developments were an important factor affecting the course of home building in 1957, though others were clearly operating. With interest rates in 1957 at postwar peaks and demand for capital funds in other parts of the economy high, lenders found the fixed-interest rate, long-maturity government-insured home mortgages somewhat less attractive. The differential movements of various types of financing is set forth in the accompanying chart. Units started with VA guarantees, with a fixed 4½ percent rate, declined by more than 50 percent. The decline in the 5 to 5¼ percent FHA-insured units was much more moderate, 10 percent, although if single houses only are considered the decrease was approximately 20 percent. Conventionally financed starts, with mortgage terms tending to fluctuate more in line with market conditions, rose 10 percent to the highest point in the postwar period.

Table 16.—Public Construction Expenditures, by Ownership and Source of Funds, 1949-57

[Billions of dollars]

	Total public	Federally owned total	State and locally owned: Total	Federal grants-in-aid	State and local matched-funds	All other State and local
1949	6.4	1.5	4.9	0.5	0.5	4.0
1950	7.0	1.6	5.4	.5	.5	4.4
1951	9.4	3.0	6.4	.5	.5	5.5
1952	10.9	4.2	6.7	.6	.6	5.5
1953	11.4	4.2	7.2	.7	.6	6.0
1954	11.9	3.4	8.5	.7	.7	7.1
1955	12.0	2.8	9.2	.8	.7	7.7
1956	12.8	2.8	10.0	.9	.7	8.5
1957	13.9	3.0	11.0	1.3	.9	8.7

NOTE: Detail may not add to totals due to rounding.

Source: Basic data compiled by U. S. Department of Labor.

The new housing legislation passed in August of last year was designed to stimulate FHA activity. Maximum permissible interest rates were raised to 5¼ percent—following a rise from 4½ to 5 percent in December 1956—and downpayment requirements were reduced a second time.

Applications for new FHA home construction showed a marked increase in the second half of 1957 over the corresponding period in 1956, in contrast to the decline evident in the first half year comparisons; by October 1957 actual starts of single-family units were running above 1956 levels. However, in the VA sector, both starts and appraisal requests declined throughout the year, with the latter down considerably more from 1956.

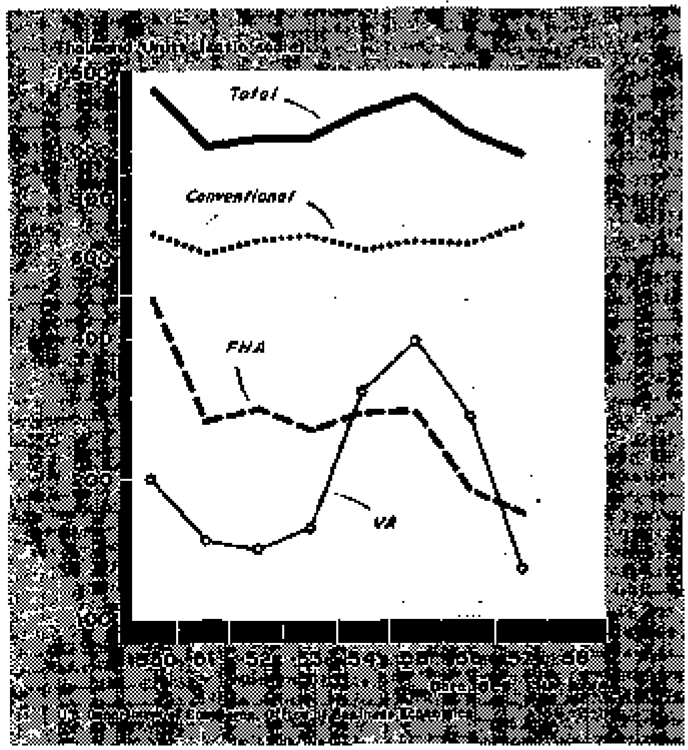
The new legislation also made available increased funds for purchases of home mortgages in the secondary market by the Federal National Mortgage Association. These purchases were stepped up from $0.6 billion in 1956 to $1 billion in 1957. This shift from government to conventional

Shift in Financing of Housing Starts

* **VA-financed starts dropped sharply**

** **FHA starts also dropped for second successive year**

*** **Conventionally-financed starts made better showing**



financing by house purchasers that were able and willing to finance at the market rate suggests that on balance the financing terms that prevailed during the year reduced housing demand.

Nonresidential construction levels off

Nonresidential construction rose in 1957, for the eighth consecutive year. Except for declines in store and private school construction, all segments registered gains over the previous year. Some of the dollar increases were less than the rise in prices, and as the year progressed, it was clear that expenditures for some types of construction which had figured prominently in the 1955–57 investment advance were in a declining phase.

With many industries approaching the completion of earlier expansion programs, expenditures for industrial construction were up only 2½ percent over the previous year. Facility additions in 1957 were particularly pronounced in steel, nonferrous metals, chemicals, and machinery.

The seasonally adjusted data indicate a peak in industrial outlays in the spring, with a fairly steady decline thereafter. On this basis fourth-quarter outlays were 6 percent below the average for the full year 1957.

Store construction down—office building booms

With the slowing down in shopping-center construction, outlays for store construction in 1957 declined by about 10 percent from 1956. This may be attributed in part to the decrease in residential construction in the past 2 years. Notwithstanding the high interest rates that prevailed in 1957, office building and warehouse construction established new records. It is of interest to note that while the physical volume of store construction has still fallen somewhat short of the peak that was reached in the midtwenties, the annual volume of office building and warehouse construction in both 1956 and 1957 were 10–20 percent higher than in the peak year of 1929.

Expenditures by the public utilities increased 14 percent over 1956 chiefly as a result of the large expansion programs of electric and gas utilities. Railroad outlays were 5 percent higher, while the communications companies held to the high rate of 1956.

Institutional construction showed another large advance in 1957, paced by the expansion in hospital and related construction. Outlays for religious building were also higher, but those for private educational facilities were down by 3 percent.

Public construction higher

Public construction outlays rose more than $1 billion in 1957 to almost $14 billion, with most categories showing increases over 1956. The greater part of the increase was attributable to work financed under Federal grant-in-aid programs, chiefly highways.

Table 16 shows the trend in public construction expenditures, by ownership and source of funds, over the past several years. Federal funds accounted for about 30 percent of total public construction last year, about one-third of this representing Federal grants-in-aid. If the value of State-owned construction put in place with State matching grants is added to this total, the importance of all Federal programs is increased to 37 percent.

Street and highway expenditures, the most important single category of public construction, accounting for some three-eighths of the public total, rose by about $0.4 billion or 8 percent, in 1957. Although last year marked the first full calendar year of operations under the new Interstate Highway System program, the current dollar increase for streets and highways was somewhat less than the rise in such outlays between 1955 and 1956. This was attributable to the fact that the new program was still largely in preliminary stages last year, and the increase in actual outlays on interstate roads was offset in large part by decreases in toll road construction and other non-Federally subsidized State highway work. Outlay by local government in this field, however, showed a sizable advance.

A considerable increase in highway construction is expected in 1958 as the work on the new programs accelerates and the offsets from lower independent State highway expenditures are reduced. At the end of 1957, projects with a total cost of $1.7 billion were committed for construction work or actually under way. Projects estimated at $1.2 billion were in, or had passed through, the phase of preliminary engineering and right-of-way acquisition, and another $1 billion of projects were in a very preliminary program stage. These data refer to all costs (including right-of-way) on all interstate highway projects, regardless of source of funds, authorized since mid-1956, when the new legislation was passed. Completions through the end of last year were less than $100 million.

There was a sizable increase in the number of new public housing units started in 1957, from 24,000 to over 50,000, with a corresponding increase in expenditures from $0.3 to $0.5 billion. The 1957 starts figure is still well below the 87,000 units begun in 1941 and the postwar high of 71,000 units started in 1951.

Advances of 10 percent or more were registered in outlays for educational facilities, hospital and institutional construction, and conservation and development. Expenditures for military facilities declined following a 2-year rise, while Federal industrial expenditures were about unchanged from 1956 though down substantially from the high levels reached in 1952–54.

Farm Developments

Farm production in 1957 continued at the record high established in 1956. Marketings were a little lower than a year earlier, however, so that even with higher prices, cash receipts from marketings at $30 billion were off a bit from the year before. Total cash receipts were maintained by a rise in Government payments.

With production expenses edging upward, net income of farm proprietors was little changed. Preliminary estimates show a slight increase from 1956 after adjustment for inventory change, and a slight decrease on an unadjusted or realized basis.

The strength in meat animal prices was particularly important in the late months of the year when the heavy seasonal movement of livestock to market occurs. A combination of good forage conditions and a bumper feed grain crop—much of which was too wet to store well or to meet CCC standards for loans—resulted in what at first appeared to be delayed seasonal marketings but which turned out to be lighter marketings than expected for the season including the opening weeks of 1958.

Table 17.—Farm Gross National Product

[Billions of dollars]

	Current dollars				Constant 1947–49 dollars			
	1954	1955	1956	1957	1954	1955	1956	1957
1. Total value of farm output	34.0	33.3	33.3	34.0	37.1	38.2	38.7	38.2
2. Less: Value of intermediate products consumed, total	13.4	13.4	13.6	14.2	13.0	13.2	14.0	13.8
3. Equals: Farm gross national product	20.6	19.9	19.6	19.8	24.1	25.0	24.7	24.4

Source: U. S. Department of Commerce, Office of Business Economics, based largely upon data from U. S. Department of Agriculture.

For the year 1957, inspected meat production was about 5 percent below 1956, with nearly half of the decline occurring in the final quarter. The decline in meat production in 1957 followed several years of expanding supply during which the number of beef cattle had expanded and marketings had continued to increase for a time after the top of the cattle cycle was reached. The principal reduction in meat production in 1957, however, was in pork, reflecting both reduced farrowing of pigs in the fall of 1956 and some increased holding back of gilts during 1957 for breeding. A record feed supply for the 1957–58 feeding season and a favorable hog-feed price ratio in the latter part of 1957 brought an expansion in farrowing plans for the spring pig crop of 1958.

Cash receipts from meat animals for 1957 at $9.2 billion were about $1 billion higher than in 1956—the principal change in livestock and product receipts as shown in the middle panel of the accompanying chart. Dairy products receipts were up slightly in 1957 from 1956 with marketings and prices both a little higher. Supplies continued to be in excess of consumer demands, however, and a slightly larger volume of manufactured products went to the CCC for price support purposes—equivalent to 4.7 percent of production during the year. A moderate reduction in the support price of dairy products has been announced for the marketing year beginning April 1, 1958.

Poultry and egg cash receipts were a little lower in 1957 than in 1956. Broiler production increased during the year. There was a decline in the number of pullets raised for laying flocks, however, and egg production fell below a year earlier during the latter part of the year. The decline in egg output was accompanied by a substantial price advance.

Crop yields high

Crop production in 1957 was again at the record high attained in 1956 and in one earlier year, and prices drifted downward. The reduction in marketings, shown in the bottom panel of the accompanying chart, was accompanied by an increase in farm inventories during the year in contrast to a moderate decline in farm stocks in the preceding year. With reduced marketings and lower prices, cash receipts from crop marketings at $12.9 billion were down $1.2 billion from 1956. This was partly offset by increased soil bank payments which reached $1 billion in 1957, about twice as much as in 1956.

Total crop acreage planted or grown in 1957 was lower than in 1956 by 11 million acres. Reduced acreage allotments and increased acreage placed in the soil bank brought substantial reductions in wheat, corn, and cotton plantings. Oats, flaxseed, tobacco, and rice acreage were also lower than in 1956. Partially offsetting increases occurred principally in feed crops other than corn and oats.

For the country as a whole, weather conditions were generally favorable for the 1957 crop season. The outstanding development was more rain in the plains. Crop acreage losses—i. e., fields planted but not harvested—were reduced sharply in 1957 so that the acreage harvested was as large as in 1956. With good weather conditions, the strong secular rise in yields continued, bringing a new record in 1957 for the all-crop yield index based upon a fixed acreage pattern. If allowance is made for some diversion of acreage to less intensive crops, then the total outturn was about the same in 1957 as in 1956 from roughly the same total acreage harvested. Freakish weather beginning in December 1957 and recurring in early 1958 brought a series of freezes to the winter vegetable and citrus fruit regions in the southeast which resulted in widespread losses of these crops and accompanying price advances.

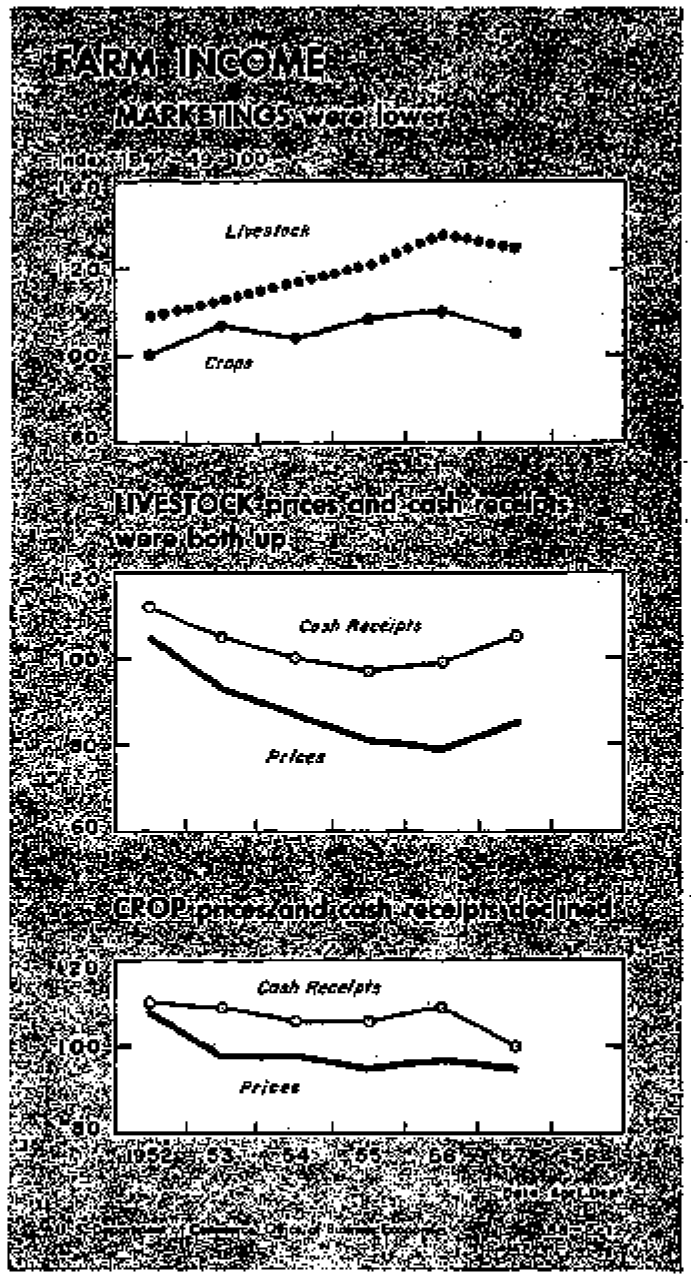
Table 18.—Farm Production

[1947-49=100]

	1950	1951	1952	1953	1954	1955	1956	1957 p
Farm output	100	103	107	108	108	112	113	113
All livestock and products	107	112	112	114	117	120	122	121
Meat animals	109	117	117	116	121	127	123	121
Dairy products	101	100	100	105	107	108	110	111
Poultry and eggs	111	116	117	120	125	123	136	135
All crops	97	99	103	103	101	105	106	106

p Preliminary.

Source: U. S. Department of Agriculture, Agricultural Research Service.



Carryovers reduced

A combination of control measures limiting production and stepped-up surplus disposal programs resulted in substantial reductions in stocks of food grains and cotton. Reductions in plantings of these crops were obtained by means of acreage controls and the placing of land in the soil bank. Food grain production showed only a moderate decline, however, as good moisture conditions in the principal wheat growing areas resulted in record wheat yields per acre. Acreage losses, which had been extensive in other recent years, were quite low in 1957. Total wheat production was just under 1 billion bushels, down 6 percent from 1956. Rice production was 13 percent lower in 1957 than the year before.

Exports of these commodities were at high rates as special factors abroad facilitated the U. S. export drive. The European wheat crop in 1956 had been an unusually small one and accumulated stocks of rice in the Orient had been reduced. On January 1, 1958, CCC holdings of wheat in inventory or under loan totaled 940 million bushels. This was 100 million less than a year earlier and nearly 200 million under the total held 2 years before.

The U. S. cotton supply situation has shown a striking change since the beginning of the export payment program in the summer of 1956. Exports had fallen to 2.2 million bales in the crop year ending in July 1956 as foreign stocks were run down in anticipation of lower U. S. prices under the export sales program. They rose to 7½ million bales in the following year. The 1957 crop in the U. S. was 11 million bales, down 2.3 million bales from the preceding year. There was a slight offset on the domestic demand side, as cotton consumption was reduced in 1957. In any case, CCC holdings of stocks and cotton pledged for loans at the beginning of 1958 were 5.6 million bales as compared with 10.3 million bales a year earlier and 13.3 million 2 years before.

The improvement in the long-term supply position for these commodities was accompanied by reduced cash receipts in 1957, however, as current prices received were little affected by the disposition of surplus stocks. Lower average quality of the cotton crop reduced the average sale price.

Mounting feed stocks

The contrasting supply situation for feed grains has already been mentioned. For a number of years feed grain production has exceeded total utilization and stocks have risen steadily. Increased acreage in 1957 and excellent yields brought a bumper crop and another large increase in carryover is anticipated despite some expected increase in livestock feeding. The generally low quality corn sold from the fall crop brought the lowest price in several years.

Other crop changes in 1957 included reductions in tobacco, potatoes, and peanuts and an increase in the soybean crop. In the fall of 1957 an increased (winter) wheat acreage was seeded. Moisture conditions continued favorable in the plains and crop prospects at the year-end were for a large 1958 winter wheat crop.

Farm GNP

Farm gross national product in constant dollars was about the same in 1957 as in 1956. On the basis of preliminary estimates, the total at $24½ billion in constant 1947–49 dollars was 15 percent above the 1947–49 average. Farm gross national product is a value-added concept obtained by subtracting the value of (intermediate) materials used up in the production process from the total value of farm output. It measures production occurring on farms, without duplication, and is "gross" only in the sense that depreciation and other capital consumption allowances are not deducted. It is computed both in current dollars and in constant (1947–49) dollars; only the latter is discussed here.[1]

For the past 2 or 3 years, changes in total farm output and farm GNP have been small in comparison with the strong secular rise which has been in evidence for many years. Over the longer period, total output has risen more rapidly than farm GNP. This differential rate of growth was pronounced during the war years and immediately afterward when the ratio of prices of farm products to prices of intermediate products consumed was especially favorable. For a number of years, however, total farm output and farm GNP have risen at about the same rate, as the relationship between prices received by farmers and prices paid for intermediate products has been less favorable.

For the period from 1941 to date, the total output per person employed in farming has increased around 4 percent per year and farm GNP per person has risen an average of 3¾ percent. These rates of increase are substantially larger than those prevailing over longer periods of time.

1. Historical estimate of current and constant dollar farm GNP are shown in the August 1954 issue of *Survey of Current Business*.

Retail Trade

Retail store sales in 1957 continued the advances shown in recent years, in response to expanding consumer income. The sales increase over 1956 was 5 percent. As prices of goods sold at retail stores were up, on the average, about 2½ percent from 1956 to 1957, the physical volume of retail trade activity for the year 1957 also registered a new high.

Three-fourths of the 1957 sales rise occurred at stores selling principally nondurable goods, with all the nondurable subgroups sharing in the advance. In the durable-goods trades, however, increases in sales above a year ago by automotive and farm equipment dealers, and by the "other durable goods" group were offset in part by declines of the lumber, building, hardware group and of appliance and radio stores.

The year 1957 represented a period of shifting patterns in retail trade. Following a rise through the first half of the year, sales stabilized in July and August, after accounting for seasonal influences. Sales fell 3 percent by November with a modest recovery in the year-end holiday period, especially at apparel and general merchandise stores.

Nondurables lead advance

All the major nondurable-goods groups registered sales gains during the year with drug stores, gasoline service stations, and food stores leading the advance. The 10 percent increases by the first two groups were repetitions of the 1955 and 1956 experiences; over the past 3 years sales at these establishments have risen about 30 percent.

New product development in the drug field has played an important role in the increasing sales trend in these stores. Antibiotics, antihistamines and tranquilizers represent but

Table 19.—Sales of Retail Stores by Kinds of Business Related to Disposable Personal Income, 1954–57

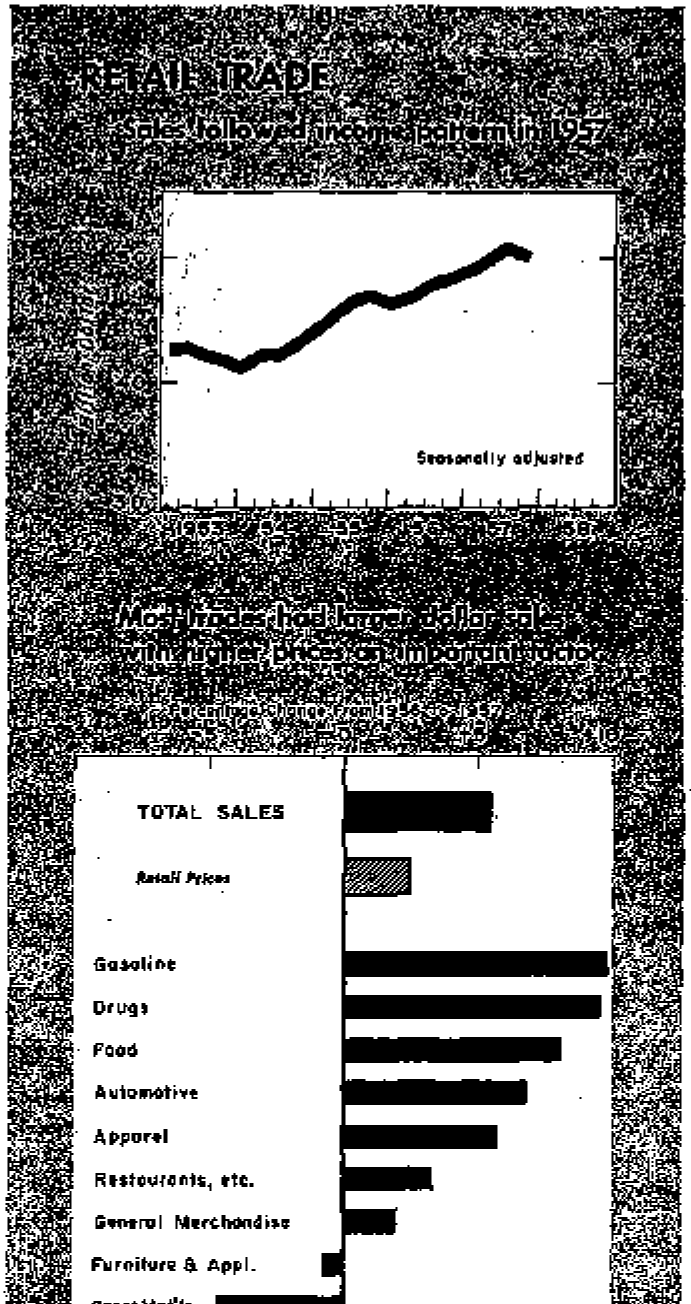
[Ratio of Sales to Income—Percent]

	1954	1955	1956	1957	1957			
					I	II	III	IV
All retail stores	66.5	68.0	66.1	66.5	66.3	66.6	67.3	66.4
Durable-goods stores	22.9	24.8	22.9	21.8	22.3	22.0	22.8	22.2
Automotive group	12.4	14.1	12.6	12.8	13.2	12.9	12.9	12.5
Furniture and appliance group	3.6	3.7	3.7	3.5	3.6	3.5	3.5	3.4
Lumber, building, hardware group	4.0	4.1	3.9	3.6	3.5	3.5	3.6	3.4
Nondurable-goods stores	43.6	43.3	43.2	43.8	43.1	43.5	44.6	44.1
Apparel group	4.0	4.0	4.0	4.1	4.0	4.0	4.2	4.1
Drug and proprietary stores	1.9	1.9	2.0	2.1	2.0	2.1	2.1	2.2
Eating and drinking places	5.2	5.1	5.0	4.9	4.9	4.9	5.0	4.8
Food group	15.3	15.5	15.4	15.9	15.5	15.8	16.1	16.2
Gasoline service stations	4.6	4.6	4.8	5.0	5.0	5.1	5.0	5.0
General merchandise group	7.4	7.4	7.2	7.1	7.0	7.0	7.3	6.9

Source: U. S. Department of Commerce, Bureau of the Census and Office of Business Economics.

a few of the hundreds of new items that have been introduced in the last few years. In 1957, the influenza epidemic with its wide use of drugs for aid in respiratory conditions, was a significant factor in the sharp rise in sales of drug stores shown in the fourth quarter.

Food stores, which account for more than a third of all nondurable-goods store sales, also continued their year-to-year sales gains, advancing another 8 percent in 1957. Perhaps 3 percent of the 1957 sales gain was accounted for by higher prices. The rise in sales of food stores reflects not only the increase in the volume of food consumed but also a type of trading up factor, as consumers have been taking more and more frozen, precooked and partly or completely processed foods. These items afford the consumer a considerable increase in services and command premium prices.



In addition, the large grocery supermarkets have been introducing more and more nonfood items such as housewares, toys, proprietary drugs, and cosmetics. While no definitive data in this field are available, private agencies estimate that perhaps 15 percent of the sales of the large supermarkets are now nonfood items. Most of the increase in the sales proportion of such items is said to have occurred since the late forties.

Apparel store sales have shown generally steady advances in the last 3 years, following a declining tendency in prior years. In 1957, total sales for the clothing group were up 6 percent, with larger than average increases registered by women's wear and family apparel stores, and smaller gains by men's wear and shoe stores.

The smallest increases for the year 1957 among the major nondurable goods groups were shown for eating and drinking places and the general merchandise group. Eating and drinking places while showing relatively modest gains in sales have nevertheless been advancing steadily. Sales in 1957 at $15 billion were up 3 percent over 1956—a somewhat smaller average annual rate of increase than in the previous 2 years.

Department stores little changed

At general merchandise stores, dollar sales in 1957 rose by only 2 percent. Prices of goods sold at such establishments advanced by about the same rate so that there was little change in the physical volume of goods passing through these channels.

After reaching a peak in August, seasonally adjusted sales at department stores declined in September and October. Some recovery was evidenced in November and December, but in the opening month of 1958 sales were off from December and about the same dollar total as in January 1957.

An important retarding factor in department store activity in 1957 was the fact that sales of the major household appliance departments fell by 4 percent to bring the entire homefurnishings department total slightly below the previous year. Among the other departments, the largest gains, 8 percent for the year, were shown by the sporting goods and cameras department, and the records, sheet music, and musical instrument department. At the apparel departments, sales of women's apparel and accessories were up slightly, while a minor decline occurred in men's and boys' wear.

Durable-goods sales mixed

In the durable-goods trades, sales showed diverse movements during the year. Sales for the automotive group were up 7 percent, with much of the increase reflecting price advances, but sales of parts and accessories and revenues from automobile retail and service work were up in real terms.

Within 1957, seasonally adjusted dollar sales of automotive dealers were stable at record rates through the first three quarters. In the final quarter, however, sales declined.

The sales weakness in the lumber, building, hardware groups, which had developed in the latter part of 1956, continued in 1957. This behavior reflects in part the lower volume of residential construction; the same factor was also important in the lack of buoyancy in household furniture and appliance buying. Sales at furniture and home furnishings stores in 1957 were almost unchanged from 1956 while declines of 3 percent were recorded for household appliance and radio stores. Lumber and building material dealers and hardware stores showed some sales improvement in the second half of 1957 as housing activity turned up.

Farm equipment dealers' sales in 1957 were greater by nearly a fifth than in 1956. These sales had declined more than a third from 1953 to the low point reached in 1956. The strong recovery in 1957 has brought dollar sales in this group to within 10 percent of the previous high reached in 1953.

Sales by chains follow general pattern

Multiple-unit organizations operating 11 or more stores had a 5-percent sales gain over 1956 to match the advance shown by the nonchain retail stores. In the food field, chain grocery stores showed a somewhat larger proportionate sales gain than did independent grocers. The chains were up 9 percent compared to a 7½-percent advance in sales shown by all independent grocers.

Sales of chain eating and drinking places also advanced at a greater rate than at independent establishments. A 6-percent rise was recorded for the multiple units compared to a 3-percent increase for all stores in this group. However, sales of eating and drinking places with 11 or more units account for only 6 percent of all sales in this group.

At drug and general merchandise stores, the sales advance of multiunit organizations was little different from that of independents. In furniture stores, household appliance and radio stores, hardware stores and lumber and building material dealers—sales of both chain and independent stores decreased, with multiunit organizations showing the greater percentage declines in each category. At apparel stores and tire, battery and accessory dealers, the increase in chain store operations lagged behind that of the independents.

Sales rise in proportion to income

Retail store sales, as indicated above, rose by about 5 percent from 1956 to 1957—a bit better than the rise in disposable personal income. The ratio of store sales to disposable income remained around 66 percent.

A slight increase in the sales-income ratio was due in large part to the greater rise in sales of nondurables. The ratio of retail sales to income in the food group went up from 15.4 percent in 1956 to 15.9 percent in 1957.

Table 20.—Sales of Retail Stores by Kinds of Business, 1954–57

[Billions of dollars]

	1954	1955	1956	1957	Seasonally adjusted quarters at annual rates			
					1957			
					I	II	III	IV
All retail stores	169.1	183.9	189.7	200.4	195.6	199.5	203.9	200.5
Durable-goods stores[1]	58.2	67.0	65.8	68.5	68.4	69.1	69.2	67.2
Automotive group	31.7	38.2	36.1	38.0	39.0	38.8	39.0	37.7
Furniture and appliance group	9.1	10.1	10.7	10.6	10.5	10.6	10.7	10.4
Lumber, building, hardware group	10.4	11.0	11.2	10.7	10.4	10.6	11.0	10.6
Nondurable-goods stores[1]	111.0	116.9	123.9	131.9	127.2	130.4	134.7	133.3
Apparel group	10.1	10.6	11.6	12.3	11.7	12.0	12.7	13.0
Drug and proprietary stores	4.9	5.2	5.8	6.3	6.0	6.3	6.4	6.7
Eating and drinking places	12.1	13.7	14.3	14.5	14.6	14.8	15.1	14.7
Food group	40.1	42.0	44.2	47.3	46.8	47.4	48.3	49.1
Gasoline service stations	11.4	12.4	13.7	15.1	14.7	15.2	15.2	15.1
General merchandise group	18.9	20.1	20.8	21.3	20.7	21.0	22.1	20.8

1. Totals include lines of trade not shown separately.

Source: U. S. Department of Commerce, Bureau of the Census and Office of Business Economics.

The share of the consumer's dollar spent at durable goods stores in 1957 showed a slight downward movement from 1956. Declines for the furniture and appliance stores and lumber, building, hardware dealers were not fully offset by advances in the sales-income ratio for the automotive group and other hard-goods stores.

Consumer credit up

Consumer credit continued to be an important factor in consumer purchasing, although credit outstanding rose less than in the previous year. Direct installment credit for automobiles and other consumer goods increased by $1.2 billion in 1957 about three-quarters of a billion dollars less than in 1956. Automobile paper outstanding rose by a billion dollars, about the same as in the previous year: The increase in extensions resulting from improved sales in 1957 was offset by the growing amount of repayment. Reflecting the less favorable sales situation the amount outstanding for other consumer goods paper rose by $200 million during 1957 compared with the $900 million advance in 1956.

Price Trends

Prices were higher in 1957, reflecting the expansionary demand factors and pressures on the cost side. The average price rise in wholesale markets was more limited than in the previous year and divergent movements developed within the general price structure. In 1957, wholesale prices of all commodities averaged 3 percent above 1956, somewhat less than the 1955 increase. In consumer markets, the 1957 advance was somewhat more than in 1956, as shown in table 21, in part reflecting increasing costs of services as well as adjustments to higher wholesale costs of goods.

Divergence in wholesale markets

In the latter part of 1957, the average of wholesale prices fluctuated within a narrow range. By December 1957, these prices averaged 2 percent above the previous December. Decreases in industrial raw material prices during the year contrasted with the sharp 1956 increases, while finished goods prices continued to rise. Nonfarm prices as a group registered a more limited increase than in 1956, while agricultural prices in 1957 as a whole advanced somewhat over 1956, following a moderate decline from 1955 to 1956.

The change in prices of industrial materials was most striking in the metals. Raw and semifinished metal products prices reached a high at the beginning of 1957, followed by a strong downward tendency during most of 1957. At year-end the group was down more than 10 percent from a year earlier. Prices of raw and semifinished forest products had risen to a peak in early 1956, and the substantial decline registered during the latter part of that year was extended during 1957. Mineral fuels prices also declined during 1957.

from the peak reached early in the year in the wake of the Suez crisis, but they remained appreciably higher than they had been before the Suez events. Chemical prices edged upward following small advances in other recent years, and prices of agricultural nonfood products remained within the narrow range in which they had fluctuated for a number of years.

Manufactured products prices, as indicated in the chart, continued to advance during most of the year, but at a less rapid rate than in 1956. This was particularly true of a broad group of metal products and building materials prices where the 1957 rate of increase was less than half that prevailing in the preceding 18-month advance. Prices of other broad types of manufactured goods continued the rising tendencies registered in 1956.

Table 21.—Wholesale and Consumer Prices

	Average annual index, 1947–49=100				Percent change	
	1954	1955	1956	1957	1955 to 1956	1956 to 1957
All wholesale prices	110.3	110.7	114.3	117.6	3.3	2.9
All raw or semimanufactured materials	103.4	103.6	104.8	106.6	1.2	1.6
All manufactures	112.9	113.6	117.9	122.0	3.8	3.5
Agricultural products	100.8	97.0	96.6	98.9	−.4	2.4
Raw or semimanufactured	94.4	89.5	88.1	90.3	−1.6	2.5
Foods	94.2	87.7	86.1	88.7	−1.8	3.0
Nonfoods	95.2	97.3	96.4	97.4	−.9	1.0
Manufactured	104.7	101.6	101.8	104.2	.2	2.4
Foods and beverages	106.7	103.6	103.4	107.2	−.2	3.7
Nonfoods	100.7	97.7	98.8	98.5	1.1	−.3
Nonagricultural products	118.7	122.2	128.7	133.0	5.3	3.3
Raw or semimanufactured	114.7	120.0	125.6	125.2	4.7	−.3
Chemicals	114.0	114.5	115.8	117.4	1.1	1.4
Forest products	115.2	122.2	125.4	119.1	2.6	−5.0
Mineral fuels	110.3	110.8	115.1	121.7	4.4	5.7
Metals	118.4	132.5	145.7	141.3	10.0	−3.7
Nonmetallic minerals	121.0	124.9	130.0	130.0	4.6	4.1
Manufactured	120.0	123.0	129.6	135.3	5.4	4.4
Chemicals	105.6	103.9	102.9	104.8	−1.0	1.8
Forest products	118.3	120.3	127.1	129.6	5.7	2.0
Mineral fuels, electricity	101.9	105.6	109.4	115.1	3.7	5.2
Metals	125.0	130.0	139.1	145.9	7.0	4.9
Nonmetallic minerals	125.0	128.4	134.7	140.4	4.9	4.2
All consumer prices	114.8	114.5	116.2	120.2	1.5	3.4
Food	112.8	110.9	111.7	115.4	.7	3.3
Housing	118.1	120.0	121.7	125.6	1.4	3.2
Apparel	104.3	103.7	105.5	106.9	1.7	1.3
Transportation	128.0	126.4	128.7	136.0	1.8	5.7
Medical care	125.2	128.0	132.6	138.0	3.6	4.1
Personal care	113.4	115.3	120.0	124.4	4.1	3.7
Reading and recreation	107.0	106.6	108.1	112.2	1.4	3.8
Other goods and services	120.1	120.2	122.0	125.5	1.5	2.9

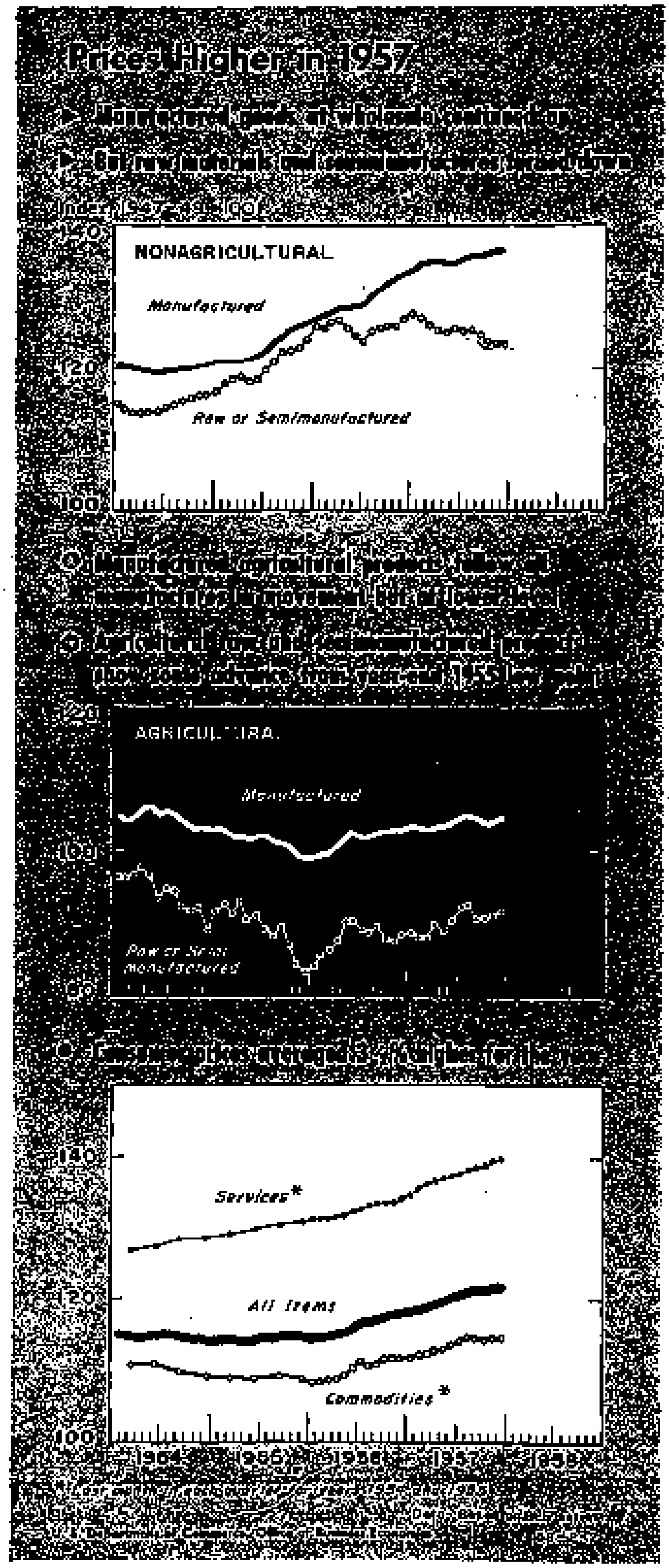
Source: U. S. Department of Labor, Bureau of Labor Statistics. Data arranged by U. S. Department of Commerce, Office of Business Economics.

Advance in consumer prices

Retail prices of goods and services continued on a rising trend during 1957, bringing average consumer prices in December to 121.6 (1947–49=100), 3 percent above a year earlier. Though prices in all major groups continued to advance, the increase over the year was larger in services, which rose over 4 percent, than in goods which were up 2½ percent.

The wider swing in service prices reflected an acceleration of the postwar uptrend in these costs relative to prices paid for commodities. The 1957 increase in these prices was more than half again as much as the 1956 rise and more than double that registered in 1955. Contributing to the 1957 rise in prices of services were large advances in transportation and medical and personal care.

The 1957 increase in goods prices was less than the 3 percent rise in 1956 but compares with a small decline in 1955. Among the commodity groups, the major increase in 1957 occurred in food prices primarily due to sharply rising prices of meat and dairy products. Most nonfood goods categories at the year-end were up somewhat from their end-1956 levels.



Foreign Business and Investment

EXPORTS OF more than $26 billion of goods and services (other than military supplies and services transferred as grant aid) were approximately $2.8 billion, or 12 percent, more than in 1956. Foreign business was thus an important factor in the rise of the value of goods and services produced by the United States in 1957. After adjustment for price changes, exports of goods and services were about $2 billion higher than in 1956, equivalent to more than half of the increase in the volume of goods and services produced by the country.

While exports were one of the major elements in the rise of domestic production from 1956 to 1957, the high point in exports was reached during the early part of the year. The subsequent decline was rather gradual at first but accelerated during the closing months of the year. Exports, therefore, were also among the factors contributing at first to the slowdown in the upward movement of domestic business activity and toward the end of the year to its decline.

Change in export trends

The reasons for the fluctuations in the export market were analyzed in earlier issues of the SURVEY. To some extent the rise in demand during the winter months of 1956–57 was due to extraordinary factors, including the Suez crisis, the poor European harvest in the preceding summer, and the need for replenishing foreign inventories of cotton. Equally as important as the existence of these extraordinary factors in the foreign demand was the fact that they led to an increase rather than a shift in demand. This increase was financed to a large extent by drawings upon previously accumulated gold and dollar assets and upon the dollar assets of the International Monetary Fund, and to a lesser extent by an increase in current dollar earnings.

Another element in the rise in exports in the early part of 1957 was the rapid expansion of foreign economies, often in excess of their capacity to finance investments from current incomes or through outside aid and capital inflows. The resulting increase in the imports of these countries caused a depletion of their reserves, and consequently the upward movement in imports had to be reversed when the reserves declined toward the minimum required by these countries for their international transactions.

Foreign buying lowered reserves

For foreign countries as a whole, about half of the rise from 1956 to 1957 in their purchases of goods and services in the United States was financed either by drawing on their gold and liquid dollar assets (and those of the Monetary Fund) or by reducing their accumulation of such assets. The movement in foreign gold and liquid dollar assets through transactions with the United States changed from an accumulation of about $1,000 million in 1956 to a decline of about $300 million in 1957.

For most foreign countries the balance of payments deficit settled in gold and dollars was even greater, as a few countries—particularly Germany, Venezuela, and Canada—increased their holdings. During the first 3 quarters of 1957 these three countries gained about $1,500 million, and although they had some losses during the last quarter of the year, for the year as a whole, the gains remained quite substantial. For the development of our export trade it was significant, however, that these countries accounted for less than one-third of our exports.

The countries losing gold and dollars were by far more important to the development of our export trade.

Dollar outflow recedes from 1957 peak

The other half of the export rise from 1956 to 1957 was financed by a higher outflow of U. S. funds through imports of goods and services, Government loans and sales for foreign currencies.

Private investments increased sharply during the second half of 1956, stayed at the high level reached through the middle of 1957, and then declined. In 1957, as a whole, the outflow of private capital was about as high as in 1956.

Although investments during the peak period from the middle of 1956 through the third quarter of 1957 included about $600 million for the purchase of oil concessions in Venezuela—which was primarily added to the reserves of that country—the increase in the outflow of private capital was also an important factor in the rise and continued high volume of U. S. exports during the latter part of 1956 and the first half of 1957. Likewise, the decline in the outflow of private capital from the first to the second half of 1957 contributed to the decline in exports during that period.

Capital outflow slows after midyear

Some of the decline in the outflow of private capital was due to lower investments in foreign branches and subsidiaries of U. S. corporations. In part this was due to an unusual concentration of large transactions during the first half of the year partly involving new financing through the capital market. Current goals for the expansion by major companies of production facilities abroad do not seem to have been revised, however, and large new projects, particularly in the development of mineral resources, which require many years for completion, continue to be pursued. Nevertheless, the appearance of excess capacity and price weaknesses for many materials produced by U. S. corporations in their foreign operations may have contributed to a stretch-out of investment programs and thus a slowdown in the outflow of new capital. There was also a noticeable decline in direct investments in the United Kingdom and the rest of the sterling area during the third quarter, which may have been a temporary movement related to the balance of payments difficulties of the United Kingdom at that time.

This applies also to the return of short-term funds from the United Kingdom during the third quarter of 1957.

The tightening of the domestic capital market was probably a factor in the decline in new issues of foreign securities in the United States, and together with the possible overextension of indebtedness and other balance-of-payments difficulties of some countries, may have been responsible for some hesitation by banks and other private enterprises to extend short- and medium-term credits.

More credits by U. S. Government

The outflow of funds through Government nonmilitary grants, credits, and the accumulation of foreign currencies in 1957 was about $600 million larger than during the previous year. The rise was mostly in capital transactions, both long and shortterm, while grants were about the same in both years. The rise in Government credits included the $250 million lent by the Export-Import Bank to the United Kingdom during the fourth quarter in order to strengthen the reserves of the sterling area.

Omitting this loan, which did not contribute directly to the demand for U. S. products, the outflow of U. S. Government funds in 1957 was still higher than in 1956, but declined from the first to the second half of the year. Thus Government credits and the acquisition of foreign currencies were a major factor in the export rise to a temporary peak in the first half of 1957.

While the decline in the outflow of funds through private investments or Government assistance (except for special transactions which resulted in additions to foreign reserves) from the first to the second half of 1957 apparently contributed to the decline in exports of goods and services, the outflow of dollars through the purchase of goods and services continued to rise throughout the year.

The rise occurred in merchandise imports as well as in other items such as travel expenditures abroad. The development in import payments varied, however, among foreign areas. Generally, payments to countries producing raw materials declined, while payments to countries from which we obtain manufactured goods, increased. Imports of foodstuffs which were comparatively low during the first three quarters of the year rose again during the fourth.

Military expenditures, which declined from an unusually high amount in the first quarter to the third quarter of 1957, recovered somewhat toward the end of the year.

Table 22.—Major Changes in the United States Balance of Payments from 1956 to 1957

[Billions of dollars]

	1956	1957	Change
United States Expenditures Abroad:			
United States imports:			
Merchandise	12.8	13.2	.4
Services and military purchases	7.0	7.4	.4
Private remittances and pensions	.6	.7	.1
Government grants and capital (net)*	2.3	2.8	.5
United States private capital (net)	3.0	3.0	------
Total	25.7	27.1	1.4
Foreign Expenditures in the United States:			
United States exports: *			
Merchandise	17.3	19.3	2.0
Services and military sales	6.2	7.0	.8
Foreign long-term investments in the United States (net)	.5	.3	—.2
Transactions unaccounted for (net)	.7	.8	.1
Total	24.7	27.4	2.7
Increase in foreign gold and liquid dollar assets through transactions with the United States	1.0	—.3	—1.3

*Excluding military supplies and services transferred under grant-aid programs.

Source: U. S. Department of Commerce, Office of Business Economics.

Recent Developments Compared With 1953

The international transactions of the United States during 1957 differ from those during 1953, the last previous period when U. S. business activity was at a cyclical peak and subsequently in the early phases of a downswing. Consequently, the favorable effects of our foreign business on the domestic economy, and the relatively minor repercussions of the decline in our economy on those of foreign countries at that time cannot necessarily be expected to be repeated.

U. S. payments decline less in 1957

In 1953, the peak in our payments to foreign countries, after adjustment for seasonal movements, was reached in the third quarter. Beginning at that time payments declined for two quarters and at the low point in the first quarter of 1954 were about $700 million, or 13 percent, below the peak. In 1957, the peak was reached in the second quarter and the decline during the following two quarters was about $340 million or 5 percent. Thus, in absolute terms the rate of decline in the outflow of dollar funds was half of what it was 4 years ago, and relative to the size of the transactions it was considerably less.

To some extent the relatively sharper drop in the 1953–54 period was due to a waterfront strike during the first quarter of 1954 which reduced imports, but even allowing for the incidence of that, the general comparison is not affected. Yet, production abroad continued to expand in 1953–54, while in the recent period many countries had to take restrictive measures to safeguard their foreign exchange reserves.

Imports of goods and services excluding military expenditures had reached their peak during 1953 in the second quarter and fell by about $420 million or more than 11 percent between the peak and the lowest point in the first quarter of 1954. (Without the strike mentioned above, the decline might have been perhaps $370–$380 million, or roughly more than 10 percent.

From the second to the third quarter of 1953 the decline in nonmilitary imports of goods and services was more than offset by a rise in military expenditures abroad, by higher Government loans, and by a change from net inflow to a very small net outflow of private capital. Military expenditures continued high for another quarter, and although they dropped somewhat during the first quarter of 1954, they provided some offset to the decline in imports.

Government loans declined after the third quarter of 1953 and thus accentuated the drop in the outflow of funds from the United States. Private investments abroad, however, continued to rise during the entire period of falling business activity and declining imports and thus were a major support for foreign dollar receipts.

In 1957, imports of goods and services excluding military expenditures did not drop at all, but on the contrary moved slowly upwards throughout the year. Military expenditures fell from the second to the third quarter. Although they recovered again in the fourth quarter, they do not show an upward trend as was the case in 1953–54. Government capital outflows, largely because of the $250 million loan to the United Kingdom, moved upward. The outflow of private capital, however, declined from the very high level during the first half of the year and constituted through the end of the year the major element in the reduction in total U. S. payments. Nevertheless, private investments abroad were at a higher rate during the second half of 1957 than in most of the recent years.

U. S. receipts dropped more in 1957

While total U. S. payments to foreign countries dropped more slowly in 1957 than in the 1953–54 period of declining business activity, U. S. receipts from abroad fell considerably more.

From the peak in the third quarter of 1953 to the low point in the first quarter of 1954, the decline in total U. S. receipts from the export of goods and services, including income on investments, and from foreign long-term investments in the United States was about $200 million or less than 5 percent. However, the waterfront strike during the first quarter of 1954 may have accounted for more than $100 million of the drop, so that perhaps less than $100 million of the decline may be attributed to cyclical and other developments, and most of that drop took place from the third to the fourth quarter of 1953. Thus, exports at that time did not contribute materially to the decline in business activity, and the upturn in the first half of 1954 helped in the expansion of production which set in around the middle of that year.

In 1957, U. S. receipts had reached the highest point during the first quarter and in the fourth quarter were about $600 million or 10 percent less than at the peak. About $200 million of the decline was due to changes in the inflow of foreign long-term capital to the United States. The drop in exports of goods and services was about $500 million or, nearly 8 percent, and in nonmilitary merchandise exports alone nearly $600 million, or over 11 percent.

Foreign countries in weaker reserve position

In sum, the current dollar receipts of foreign countries appear to have been much less affected by the recent decline in U. S. business activity than was the case in 1953–54, while the effects of foreign business on the U. S. economy in 1957 were much more adverse than in the earlier period.

The difference in the movement of foreign expenditures in the United States during these two periods may in part be explained by the difference in the balance of payments between the United States and foreign countries in 1953 and in 1957 before the decline in business activity set in.

During the first three quarters of 1953 the transactions between the United States and the rest of the world resulted in net payments by the United States and a corresponding rise in foreign gold and liquid dollar assets by about $2.3 billion at an annual rate. The decline in foreign dollar receipts during the following two quarters reduced the rate of accumulation by about $1 billion, but because of its previous size it remained sufficiently high to permit a continued expansion of business activity and trade by foreign countries.

In contrast, during the three quarters preceding the decline in U. S. payments in 1957, foreign expenditures in the United States already exceeded foreign dollar receipts by about $650 million at an annual rate. This made the foreign position at that time considerably more vulnerable than it had been in 1953. The vulnerability of foreign countries was even more pronounced than the overall loss of gold and dollars indicates because losses of gold and dollars by certain key countries, including the United Kingdom, were substantially higher.

Although total gold and liquid dollar holdings in the middle of 1957 were about $4.7 billion higher than in the middle of 1953, this amount equals the gains of three countries—Germany, Canada, and Venezuela. The total holdings of all the other countries and international institutions after the decline during the preceding three quarters were not higher than 4 years earlier, although total imports by these countries had risen over that period by about 45 percent.

The financial difficulties of these countries, which made it necessary to restrict their demand for goods and services produced by the United States, preceded the change in business activity here and must be attributed to the exceptionally rapid rise in foreign expenditures in the United States during the preceding period which set in around the beginning of 1956.

The decline in our exports after the first quarter of 1957 must be viewed as an adjustment from the previously sharp rise (which exceeded the rise in the outflow of funds from the United States) and to date only to a minor extent to the decline in our payments to foreign countries which set in around the middle of the year. There can be no question, however, that because their reserves relative to their trade are much smaller than in 1953, and because they did not start from a position of rising reserves as they did then, the decline in our payments abroad provided an additional reason for a downward adjustment in foreign purchases here.

Foreign economic expansion slower

Another major difference between 1953 and the current period is that during 1957 capital investments, and therefore the rise in business activity throughout the world, seemed to have slowed down while in 1953 the decline in the United States economy was offset by a continued and in fact an accelerating rise abroad. Balance of payments difficulties are only partly responsible for the recent change in trends. The world-wide expansion of productive facilities for many commodities, particularly raw materials and some foodstuffs, has outstripped the rise in demand. Consequently, prices of primary commodities have generally weakened during 1957 and the incomes and purchasing power of the producing countries have been affected adversely, a condition which did not prevail in 1953.

Business expansion also slowed down in most manufacturing countries, including those which were not affected by balance of payments difficulties. As the slowdown in output appears to be much more widespread than in 1953 our economy cannot expect the same degree of support from our foreign business as it received during the previous downturn.

Most foreign countries, however, are more or less committed to maintain a high degree of employment and to achieve further economic development. They may be expected to take measures to counteract contractive forces that may develop in their economies. Such measures will also provide some support for the demand for goods and services from the United States. The extent to which this demand can become effective will depend on the outflow of funds from the United States and the distribution of these funds among foreign countries.

In the analysis of the effects of the decline in business activity in this country on the outflow of funds from the United States the following factors should be taken into consideration.

Stabilizing factors in dollar outflow

Overall merchandise imports have not declined through the end of 1957, which is contrary to the experiences in previous postwar periods of declining business activity. To some extent this was the result of rather large imports of coffee during the final quarter of the year following lower imports and a depletion of stocks earlier in the year. Coffee imports generally are not affected by moderate changes in U. S. business activity.

More important from a long-run point of view may be certain shifts in the composition of imports which have taken place since 1953. In particular, commodities which were subject to the largest import drop in 1953–54, including materials used in the production of durable and nondurable goods (excluding newprint and petroleum), and goods used in agricultural production, comprised a lesser portion of total imports during the first 9 months of 1957, than prior to the 1953–54 decline in business activity, while those commodities which had risen during the business decline in 1953–54 comprise now a much larger share of imports. Important among the latter are manufactured consumer goods. These shifts appear to have contributed to the relative stability in imports during the recent decline in domestic business activity and their influence should be considered in evaluating the sensitivity of imports in the longer run.

Another stabilizing element in recent imports was the fact that during the first half of 1957, before domestic business activity started to fall, imports of materials used in manufacturing production were already lower than a year earlier. In 1953–54 imports of materials used in durable-goods production moved rather parallel to the output of such goods, while imports of materials used in nondurable goods followed a downward trend which had started much earlier and caused the decline to be steeper than the decline in the output of nondurable goods.

The failure of imports of many industrial materials (other than petroleum) to rise prior to the middle of 1957 in proportion to the output of the industries using them was due to a relatively greater utilization of supplies obtained from competing domestic sources.

The rising share of domestically produced goods in the total consumption of such materials may indicate that the dependence by the United States on imported materials has declined. It may also signify, however, that for some commodities domestically produced goods are used to supply the peak demand and that as demand declines imports would again supply a rising share of the market. The latter would be the case where domestic sources of supply are being gradually depleted, and costs of production are rising more than abroad, or where foreign prices are more flexible than those of domestically produced goods. In these instances imports would be expected to be more stable than the activity of those industries which use the imported materials. Similar conditions may also have been behind the sharp rise in U. S. exports since the early part of 1956 as world demand for many commodities approached a peak.

Factors reducing dollar outflow

There are several factors, however, which may pull imports downward. The ratio of inventories to consumption for many imported materials (except wool) rose sharply during the early part of 1957 and was unusually high when consumption started to decline. During the following months this ratio increased further. A rise in inventories of many imported materials (particularly those produced abroad by branches and subsidiaries of U. S. corporations) occurred also during the 1953–54 downswing of business activity. In 1953, however, inventories were smaller in relation to consumption, and prices during the period of declining business activity were rather stable. It may be too early, therefore, to infer that rising inventories will again absorb some of the impact of a declining domestic demand.

Government stockpiling, which continued at a comparatively even pace during the 1953–54 cycle, started to drop early in 1957 and can be expected to continue downwards. On the other hand, the decline in imports of steel during the 1953–54 period, following a sharp rise a year earlier as a consequence of the steel strike in 1952, does not have a counterpart at this time. Petroleum imports, which were one of the rising items in 1953–54, are now restricted.

Among the other purchases by the United States, military expenditures are not likely to provide a support to foreign dollar earnings, as was the case in 1953–54. Travel expenditures continue to rise relative to U. S. disposable income, but not quite so much as they did 4 years ago.

Factors favoring increase in capital outflow

The outflow of private capital during the final months of 1957 was held down both by the absence of extraordinary transactions like the purchases of oil concessions in Venezuela and major new security issues. Several large new issues are scheduled for the current year, and the increased supply of loan capital may also stimulate the outflow of short- and medium-term funds through banks or other commercial channels. Present indications are that private portfolio capital outflow will rise again during the early part of this year, and thus counteract to some extent a decline in the outflow of dollars from other transactions. This happened also in 1953–54 when private capital was a major factor in mitigating the effects of the business downswing in the United States upon the economies of the rest of the world.

To sum up these various trends and developments, it may be concluded that the flow of dollars to the rest of the world continues, of course, to depend mainly upon domestic business developments. There are several factors missing in the current situation which in 1953–54 kept the outflow of dollars to foreign countries relatively stable. Other developments have appeared, however—largely reflecting the growing economic strength of other countries—which in the absence of restrictions on trade and investments both here and abroad, could be expected to have a stabilizing influence on the outflow of dollars at this time.